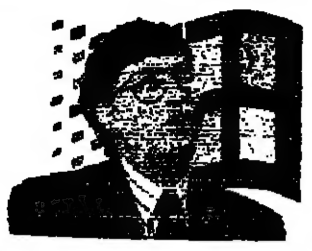
FINANCIAL TIMES

Start the week with...



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Living with the Internet
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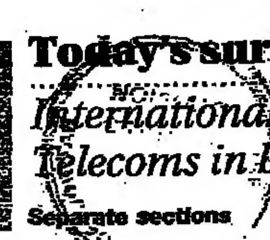


Today's surveys
International capital markets
Telecoms in business
Separate sections

World Business Newspaper
MONDAY JUNE 10 1996

Italian regulator ready to approve Mediaset flotation

Italian financial markets watchdog Consob is expected today to lift the final obstacle to the stock market flotation of Mediaset, the media company controlled by former Italian premier Silvio Berlusconi. The watchdog is likely to approve the group's prospectus, clearing the way for investment to begin in Milan next week – nearly a fortnight later than Mediaset had hoped. Page 17

East European bond risk premium drops: Increasing investor demand for high-yielding financial assets and competition among international banks to lend and underwrite bond issues are driving down the "risk premium" for eastern European borrowers. Page 16

Former Yugoslav regions reject EU plan: Political leaders of Bosnia-Hercegovina, Croatia, the Federal Republic of Yugoslavia and the former Republic of Macedonia have rejected EU attempts by European Commission president Jacques Santer and Italian foreign minister Lamberto Dini, to foster regional co-operation. Page 2

Oil shake-up may be affected: Russia's presidential elections this month could affect the plans of Russia's biggest privatised oil companies to reorganise the country's energy sector. Page 19

Italy prepares for $1.16bn sales: Italy is beginning for the rapid sale of government shares in the insurer, Ina, and the banking group, Imi, which could raise L1,800bn ($1.16bn). Page 19

French social security budget attacked: Trade unions and the opposition Socialist party attacked the French government after reports that this year's social security deficit could reach FFr48.6bn ($9.45bn), three times the target set by prime minister Alain Juppé. Page 2

Bahrain warns of Iranian 'plot': The emir of Bahrain, Sheikh Isa bin Sulman al-Khalifa, said an alleged pro-Iranian plot against his government was also aimed at other countries in the region. Page 4

BP in Indonesian deal: An Indonesian unit of British Petroleum signed a sales agreement to secure the future of a controversial Indonesian petrochemicals project. Page 5

Indian PM backs Pakistan talks: Indian prime minister H.D. Deve Gowda has raised the prospect of the first high-level talks between India and Pakistan for more than two years amid further signs of an advance in trade relations. Page 3

Appeal for Kashmiri hostages: The British, German, Norwegian and US ambassadors to India appealed to Kashmiri separatist guerrillas to release four tourists held hostage since July.

UN says 73m in child labour: At least 73m children aged 10-14 are engaged in child labour worldwide, 13 per cent of all children of that age, a United Nations report said. Two thirds of the 73m were in Asia and 24m were in Africa. Page 5

Spain and Bulgaria draw Euro 96 clash:

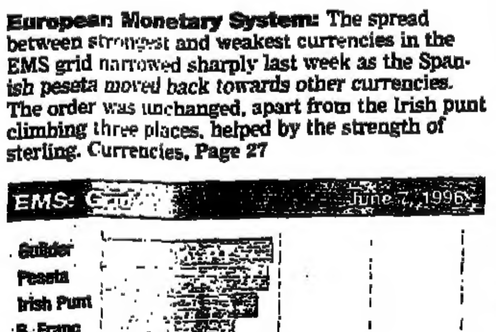
Bulgaria's Krasimir Balakov is tackled by Spain's Fernando Hierro during their Euro 96 match in Leeds, England. The match was drawn 1-1. In Manchester, Germany beat the Czech Republic 2-0. Press review, Page 2: Backward in looking forward, Page 10: Thai punters at odds with the law, Page 16

England win first Test by eight wickets: England captain Mike Atherton hit an unbeaten half-century at Edgbaston as his team completed an eight-wicket win over India in the opening cricket Test of a three-match series.

Russian triumphs in French Open: Sixth-seeded Yevgeny Kafelnikov became the first Russian to win a grand slam tennis tournament, beating German Michael Stich, the 15th seed, 7-6 7-5 7-6 in the final of the French Open in Paris.

European Monetary System: The spread between strongest and weakest currencies in the EMS grid narrowed sharply last week as the Spanish peseta moved back towards other currencies. The order was unchanged, apart from the Irish punt climbing three places, helped by the strength of sterling. Currencies, Page 27

EMS: Grid — June 7, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Albania	LEk 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch32	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh15	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira80	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£66.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils650	Portugal (m'land)	Es240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

UK dismisses EU chief's attack over beef crisis

By George Parker in London and Caroline Southey in Brussels

Britain yesterday tried to quell a mounting row with Brussels over the UK response to the beef crisis, as Mr John Major, the prime minister, braced himself for another highly charged parliamentary vote on Europe.

UK officials dismissed a barrage of criticism from Mr Jacques Santer, president of the European Commission, as "nothing new", and said Britain would continue its diplomatic efforts to secure a lifting of the beef export ban.

Mr Santer attacked Britain's policy of non-co-operation as "absurd" and "irresponsible" and said it was creating "an anti-British atmosphere" on the Continent which was "not profitable to British interests".

Mr Santer said the time had come to "solve the crisis and to bring it to an end. I'm quite convinced it has to come to an end. We are going as far as the limit of our possible tolerance, and all the member states' tolerance".

He added that Europeans were beginning to question Britain's membership of the EU, although he did not think "any government is sharing that view".

Mr Santer expressed sympathy for countries such as Germany and Austria which have taken the toughest stances on the need to maintain the ban.

The UK foreign office said it hoped for an early agreement on a framework for a lifting of the ban, but was reluctant to repeat last week's assertions that a deal could be reached before the EU's intergovernmental conference in Florence on June 20. Today Mr Malcolm Rifkind, foreign secretary, will block a number of measures at the EU general affairs council as part of Britain's campaign of non-co-operation.

Although Mr Rifkind will allow through an association agreement between the EU and Slovenia, he will stop deals with the former Soviet republics, Syria and others.

So far, 56 measures have been put on hold by the UK protest, including efforts to combat fraud and racism.

Mr Santer's strong words served only to heighten the determination of Eurosceptic Tory MPs to maximise support for a Commons Referendum bill, to be moved tomorrow by Mr Bill Cash, a leading Eurosceptic.

Mr Major has tried to unite the Tories behind a referendum on a single currency, but Mr Cash's bill goes further and would offer a referendum on the whole question of Britain's participating in further European integration.

A survey of Tory MPs by a Sunday newspaper found that 50 per cent of those questioned were in favour of the bill, suggesting up to 90 backbenchers might support it.

Mr Cash said he expected Tory MPs to vote with their consciences, although their support could be influenced by other factors.

Sir James Goldsmith's Referendum party has pledged not to field candidates against those who share its ideals.

Balkans oppose Brussels, Page 2
Ways around the veto, Page 5

BT, MCI Internet network set to go live

By Alan Cane

British Telecommunications and its US partner MCI will today announce that they are close to completing the world's largest Internet network.

The multimillion dollar network, scheduled to go live later this year, will give BT and MCI an appreciable lead in the battle for Internet traffic, marking the first significant move by telecoms operators to take control of the Internet, the world's largest computer system.

"BT and MCI are making a smash-and-grab raid on the Internet," an industry source commented yesterday.

The new network will not compete with the existing Internet but will interconnect with it, offering greatly increased capacity and professional network management.

It will be operated and managed by Concert, the "global supercarrier" established two years ago by BT and MCI to compete for the lucrative international business of large multinational customers.

The two companies are expected to confirm today that Concert is running ahead of its business plan and will break even at the operational level in the year 1997/98.

They will also announce a new distributor of Concert services in the Asia Pacific region, thought to be NTT of Japan, the world's largest telecoms operator. BT has long sought a strategic alliance with NTT to strengthen its position in Asia.

The new Internet network will involve the deployment of at least 12 large telecoms switches in the US, Europe and the Asia Pacific region linked by high capacity fibre optic cabling. It will increase the capacity of the Internet by some 30 per cent, offering customers a substantially faster and more efficient service.

Internet traffic continues to grow dramatically and is already stretching the capacity and the technology of the original Internet. Customers are often unable to connect to the Internet because of congestion. Traffic between two European cities is commonly routed via the US because of lack of capacity in Europe. The new BT/MCI network will provide high capacity links between switches or "superhubs" in big European and other cities.

Recent estimates suggest there could be 500m Internet customers by 2000, compared with 60m today. Some observers believe Internet traffic could exceed voice traffic by the end of the decade.

BT and MCI plan to market the new network as a premium service, offering the quality and reliability of conventional telephone services.

The Internet is essentially a communications system for computers, a network of computer networks all of which obey the same rules and therefore talk the same language.

Media Futures, Page 11
Challenges to the seat of power, Page 15
Lex, Page 16

Former US senator George Mitchell (centre) answers reporters' questions on arriving at a Belfast hotel ahead of today's all-party talks on Northern Ireland's future which he will chair. Report, Page 16; Editorial Comment, Page 15 Picture, AP

Dow Chemical plans $1bn venture

By Jenny Luesby in London

Dow Chemical, the world's largest plastics company, will today announce plans to launch a $1bn a year polypropylene business with the help of Montell, the Shell-Montedison joint venture.

Dow currently produces no polypropylene, best known as the tough but slightly spongy plastic used in car bumpers.

But it plans to claim more than 5 per cent of the $22bn world polypropylene market with an investment of just $500m, thanks to an alliance with Montell, the world's largest producer of the plastic.

Dow plans to build six huge polypropylene plants to create a business with annual sales of $1bn within 10 years.

The first, in Schkopau, Germany, will start production in early 1998, with an eventual annual capacity of 250,000 tonnes. Two more plants will be completed by 2000 – one in North America and one in Tarragona, Spain. The other three are likely to be in Asia and North America.

The company will retain sole ownership of the plants. However, it will begin selling polypropylene under its own name, but made by Montell, later this year.

Mr Robert Wood, a Dow vice-president, said the company had agreed to buy millions of tonnes of Montell plastic so that it could expand sales steadily, and use far more of each plant's capacity when production started.

Montell's incentive for helping its competitor in this way lies in the technology alliance that comes with the deal. The chemistry involved in turning oil and gas into plastics is complex, and tends to move forward in leaps.

Montell, which has 20 per cent of global polypropylene sales, already controls one of the

Continued on Page 16

Arab leaders call for summit to face hardline Israeli PM

By Roula Khalaf in Beirut

Leaders of Egypt, Syria and Saudi Arabia have called for an Arab summit to be held in Cairo on June 21-23 in an attempt to forge a common position following the election in Israel of Likud leader Mr Benjamin Netanyahu.

Mr Hosni Mubarak, the Egyptian president, Mr Hafez al Assad, Syria's president, and Saudi Crown Prince Abdullah said the Arab summit, which would be the first for six years, was needed to keep the Middle East peace process on track.

The call came after a two-day meeting in Damascus, the latest in a series of consultations among Arab heads of states last week. They warned that any backtracking by Israel's hardline new prime minister on the peace process threatened to return the region to a cycle of tension and violence and held Israel accountable for such an outcome.

Mr Netanyahu's stated positions before his May 29 election victory over Labour's Mr Shimon Peres have thrown into doubt the fate of the Arab-Israeli peace process. His statements have ruled out Israeli withdrawal from the Golan Heights, which is the only basis upon which peace with Syria could be achieved.

The prime minister-elect has also ruled out the establishment of a Palestinian state and has said he will not honour existing commitments to discuss the future of Arab East Jerusalem in final settlement talks with the Palestinians.

Mr Netanyahu promised at the weekend to respond to the latest Arab initiative only after forming a government.

Despite their persistent rhetoric about Arab unity, the last time Arab states managed to get together was in August 1990, after one Arab country, Iraq, invaded another, Kuwait.

The announcement at the weekend follows numerous attempts by Egypt to organise a summit to overcome the rifts that developed during the Gulf war. But Mr Mubarak said on Saturday it was too early to include Iraq in this month's meeting.

Backing Syrian, Lebanese and Palestinian demands, Egypt, Syria and Saudi Arabia said in Damascus that the only way to achieve peace was through a full Israeli withdrawal from all occupied Arab land. This would include the Golan Heights, South Lebanon and Israeli-held Palestinian territories – first and foremost Arab East Jerusalem, which Palestinians consider the capital of their future state.

Mr Netanyahu is taking over at a time when Egypt and Jordan have signed peace agreements with Israel, the Palestinians are implementing a phased peace agreement and discussing a final settlement, while peace deals have yet to be achieved on the Syrian and Lebanese fronts.

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Paris under attack on welfare costs

By David Owen in Paris

The French government came under attack from trade unions and the opposition Socialist party yesterday following reports that this year's social security deficit could reach three times the target set by Prime Minister Alain Juppé.

The reports, which threatened to cast fresh doubt over France's ability to qualify for the single European currency, said a document to be published on Wednesday would indicate that the 1996 social security deficit could reach FFr48.6bn ($9.45bn).

According to the reports, the document – a paper by the social security audit commission – would attribute the disappointing figure to a fall in receipts caused by a gloomier than expected economic outlook. They said the commission would warn that it would be "imprudent" to count on a return to equilibrium in 1997.

The opposition claimed the figures, which were not officially confirmed, showed the government had not brought health spending under control. "One might have thought that after so many deductions from wages the social security deficit would have been absorbed," said a Socialist party spokesman. Mr Marc Blondel, leader of the Force Ouvrière union, said Mr Juppé had "deceived us by telling us things would be better tomorrow".

Mr Juppé, who last year set an objective of FFr16.6bn for this year's social security deficit, was on his way to Canada. However, Mr Jacques Barrot, social affairs minister, said that, far from calling into question the social security reform plan, the forecast deficit made its implementation more necessary.

The government has set itself the target of reducing this year's overall deficit to 4 per cent of national output. This is as a stepping stone to its goal of bringing the combined budget and social security deficit to 3 per cent in 1997, in order to qualify for European monetary union.

A few months ago, the European Commission forecast that the French deficit would be about 3.6 per cent of gross domestic product in 1997. But, in projections published last month, it lowered its prediction to 3 per cent after Paris asked it to take planned spending cuts into consideration.

EUROPEAN PRESS REVIEW

Media put Euro-bashing on hold as big kick-off begins

BRITAIN

By Michael Thompson-Noel

In Britain, for the moment, the giggling has ceased. Britain may even be approaching its *heure de vérité* – its hour of truth – as European Commission President Jacques Santer warned at the weekend.

Mr Santer was referring to Britain's beef war with the European Union following Europe's ban on sales of British beef as a result of the scare over mad cow disease.

But the sullen sobriety suddenly evident in the British media has little to do with Mr Santer's warning that Britain could find itself friendless in Europe because of the beef war – and everything to do with Euro 96, the European soccer finals, which started in London on Saturday.

For weeks, Britain's stridently competitive press has revelled in one of its favourite games: Euro-bashing. Most British newspapers normally treat Europe as low comedy, and the beef war has prodded them to fresh heights of xenophobic fancy.

But "Europe" is no longer "over there". For the next three weeks "Europe" is "here". Indeed, the "Europe" that has invaded England for the European soccer finals is a multi-talented task force that would doubtless like nothing better than to kick the English team – which excels in haplessness: their opening game on Saturday was a 1-1 draw against Switzerland's dullards – to bits.

It is a futuristic looking invasion force: 15 national teams from continental Europe, including Russia, Romania, Bulgaria, Croatia, the Czech Republic and Turkey – not so much Europe as Eurasia.

In *The Times* on Saturday, chief soccer writer Rob Hughes, sounding forlorn, stated: "It is time to accentuate the positive. . . The country must bond together to ensure that Euro 96 runs smoothly. . . For three weeks, the motherland of the world's most popular game will undergo something like a rebirth meaning there would be "pain, expectancy, fear".

The fear he was referring to is palpable throughout the UK press: fear that the English team will look ridiculous (Scotland are playing, too, but no one takes them seriously); fear that England may botch its staging of the world's third biggest sports event; fear that English cities will look ugly and impoverished to an estimated 250,000 visiting supporters; above all, fear of violence.

In the *Daily Mail*, Ian Wooldridge wrote that, far from anticipating a carnival, millions of his countrymen were cringing in apprehension of the next three weeks.

"Anyone with a vestige of concern for what is left of Britain's reputation for law, courtesy and tolerance," wrote Wooldridge, "is entitled to question whether hosting a major international sporting tournament is worth the aggravation. . . "

The best that the *Daily Star* could do was work up a claim that British sports fans were going "flutterly mad" in a "£250m ($161m) scramble to gamble" on Euro 96 and other sports events, while *The Sun*, famously insular, persevered with its doomed "Roar for England" campaign.

However, The Sun could not resist one of its little jokes. Because Euro 96 would be thirsty work, it said, it had devised some special cocktails, including the "Sour Kraut".

Yesterday, the Sunday papers' bulging sports sections wrestled with the task of explaining why England had been unlucky not to beat Switzerland in London on Saturday.

They did not want to be too rude about the Swiss (or the referee), but neither were they quite ready to dwell on England's rottenness.

As usual, the greatest insouciance was shown by *The Sunday Times*, which peered beyond Euro 96 to claim that last week's four-year, £743m TV rights deal between Rupert Murdoch's satellite broadcaster BSkyB, the BBC and England's Premier soccer division "could transform English football into the finest in the world".

What The Sunday Times meant was that top English clubs, buttressed by further big sums from its own proprietor, were now in a position to sign up more of the foreign soccer stars who will be on view during Euro 96.

The weekend's most widely disseminated yet most studiously ignored piece of sports writing was an article by Prime Minister John Major, a keen sports fan, which was released via the *Press Association* news agency.

"The Italians may have the European presidency, but we have home advantage," Mr Major wrote. "We made it count in 1966 [when England won the soccer World Cup]. Let's hope that the 30-year wait is over and that football comes home in glory this summer".

The prime minister's words were swiftly lost in cyberspace.

EUROPEAN NEWS DIGEST

Germany's FDP sharpens image

The leadership of Germany's liberal Free Democratic party (FDP) – Chancellor Helmut Kohl's junior coalition partner – has received overwhelming support to discard its left-leaning programme and instead focus on a free-market economy.

The decision, made at the FDP's party congress in Karlsruhe at the weekend, is aimed at broadening its support and winning back disaffected voters.

Mr Guido Westerwelle, the FDP's general secretary, who has forged a new identity for the party, said it was time liberals stood up for what they believed in: less bureaucracy, low taxation and a society free from stifling regulation.

Although the 660 delegates threw their support behind Mr Westerwelle, the enthusiasm is likely to give way to sober realism as it becomes clear the FDP faces difficulties in influencing key decisions by the coalition.

For instance, in spite of Mr Westerwelle's criticism of the government's decision to back down on reform of Germany's shopping hours, cabinet tomorrow is expected to endorse a compromise draft law which will allow shops to remain open by just an additional two hours to 8pm on weekdays, and leave unchanged the usual 2pm closure on Saturdays. In addition, Mr Günter Rexrodt, the FDP's federal economics minister, and his aides are unlikely to persuade Mr Kohl to press for a more liberal European energy law.

Judy Dempsey, Berlin

Islamists seek Turkish coalition

Turkey's Islamist Refah party today begins consultations with the first of five political parties in parliament in an attempt to put together a coalition government.

Mr Necmettin Erbakan, Refah's leader, is to meet Mr Muhsin Yazicioğlu, leader of the Grand Union party, a small nationalist-Islamist group with eight seats in the 550-member parliament.

Mr Erbakan is expected to meet Mr Mesut Yilmaz, the caretaker prime minister and head of the conservative Motherland party, and Mrs Tansu Çiller leader of the True Path party, later in the week.

Few commentators expect he will be any more successful in forming a government now than in January, when he tried and failed to form a government following inconclusive general elections in December.

John Barham, Ankara

Albanian opposition still defiant

Albania's opposition parties are maintaining their boycott of the country's disputed general election despite a government proposal to re-run elections in 17 of the 115 constituencies.

In an apparent concession to the opposition, Albanian President Sali Berisha said at the weekend that fresh elections would take place on June 16 in 17 areas where there had been significant irregularities.

The move follows heavy criticism from opposition leaders, foreign observers and western governments of ballot rigging and intimidation in the May 26 general election.

"We cannot accept a partial re-run if there is no general recognition of all the violations. Berisha's decree is not the solution. This is the President's ploy to hide [the manipulations] from the world," said Mr Skender Gjinushi, chairman of the opposition Social Democratic party. The US and the European Union have both called for a partial re-run of the election, but it is unclear whether a new poll in 17 zones will satisfy their demands.

Marianne Sullivan, Tirana

Iliescu seeks third term

President Ion Iliescu of Romania is to stand for a third term on the ticket of the governing Party of Social Democracy (PDSR) in elections scheduled for November 3.

Party officials said the president, who has led Romania since the overthrow of the Ceausescu regime in 1989, had asked them to start collecting the 100,000 signatures needed to qualify as a candidate.

The announcement will be a boost to the party ahead of Sunday's second round of local elections, after its poor performance in the first round.

Results released at the weekend showed that the centre-left PDSR, which includes many former senior communists, won 21.6 per cent in the first round, more than any other group. However, the centre-right Democratic Convention and the centrist Union of Social Democrats, the two main opposition groups, together won 29.6 per cent.

Virginia Marsh, Budapest

Geneva votes against crossing

Geneva voters have rejected construction of a new SFr700m ($550m) crossing over their lake, official referendum returns indicated last night.

Counts from from 60 polling stations out of 75, covering two-thirds of the registered electorate, showed 67 per cent voting against a bridge and 69 per cent against a tunnel – the two projects proposed by the Geneva cantonal government.

Analysts said the projects – the latest in over a century of debate – were doomed for the next few years.

A new crossing, to relieve growing congestion in the city centre served by only one 19th century bridge across the river Rhone at the mouth of the lake, was approved in principle by 68 per cent in an earlier referendum in 1988.

Reuter, Geneva

Fresh bread on holiday menu

The east German state of Mecklenburg-Vorpommern has become the first regional government to allow its bakers to bake bread on Sundays and bank holidays, defying an imperial decree dating back to 1915.

The decision by the state, governed by Chancellor Helmut Kohl's Christian Democratic Union (CDU) in coalition with the Social Democratic party (SPD), applies only to bakeries in inner cities and holiday resorts and was prompted by purely pragmatic reasons.

With beautiful lakes, scenery and a long coast, the state is dependent on tourism as a revenue earner and opposes any move by Bonn likely to force the state's hotels to serve visitors stale or tired *Brötchen*, or rolls. The 1915 decree, under which bakers are not allowed to bake bread between 10pm and 6am, was originally introduced to preserve grain stocks for the war effort.

Judy Dempsey, Berlin

Slovenia shoves its foot in the door of EU

Kevin Done on Ljubljana's fight to overcome Italian objections to an association agreement

After a final punishing sprint, Slovenia, the most prosperous of the states to emerge from former communist east Europe, will make it to the starting line today to join the competition for entry into an enlarged European Union.

The most developed of the six former Yugoslav republics, Slovenia will become the 10th country from east Europe to sign an association agreement with the EU at a ceremony in Luxembourg this afternoon.

In a further crucial step towards integration with the west it is also due to close tomorrow – barring any last-minute legal hitch – its landmark debt deal with the London Club of commercial banks, finally extricating itself from the problems of the debts amassed by former Yugoslavia.

Five years after declaring its independence and fighting a brief war with Belgrade, Slovenia is moving fast to overcome its Yugoslav legacy. The association agreement with Brussels will bring it into the line-up for EU membership alongside the front-runners, Poland, the Czech Republic and Hungary, and should allow it to leap-frog the other EU associates Slovakia, Romania, Bulgaria and the three Baltic states.

A formal application from Slovenia for full EU membership is expected to follow shortly.

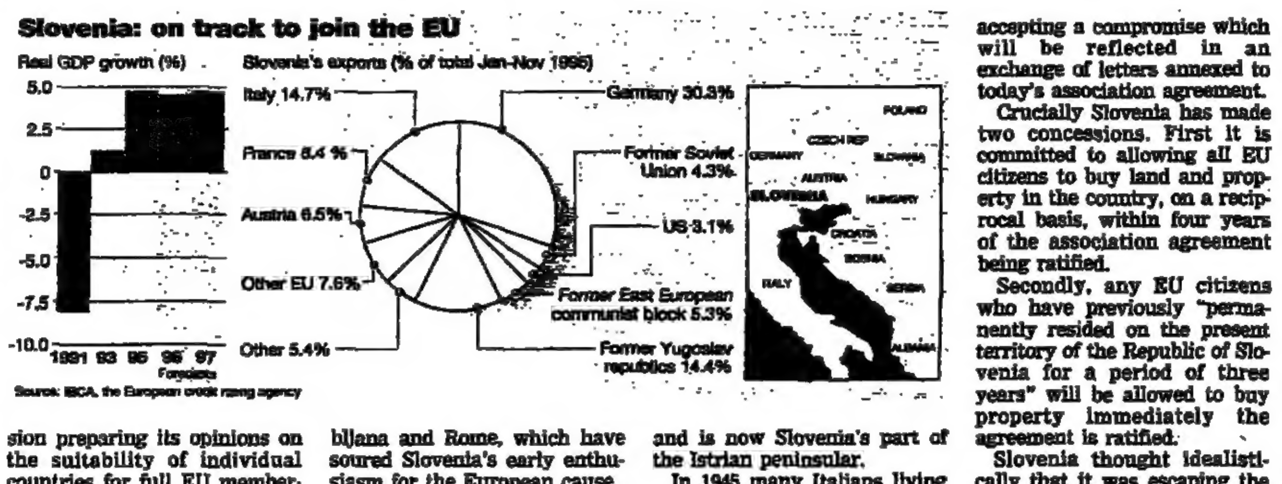
Its efforts to gain associate status have been hampered for more than two years by Italy, its biggest neighbour, which has used Slovenia's application to pursue its own narrow agenda for property restitution and rights for Italian citizens to buy property in Slovenia.

Just as it was finally overcoming Italian objections – helped by the recent change of government in Rome – Slovenia looked alarmingly as if it was about to become a victim of the British beef crisis and the UK government's policy of non-co-operation with Brussels. It took days of frantic diplomacy last week to remove the surprise UK hurdle.

Ljubljana had to move fast to convince London that this might be its last opportunity to gain associate membership.

Associate membership is a key part of the "pre-accession strategy" for countries from central and east Europe. The candidate countries must have replied by July 27 to Brussels questionnaires, which will form the basis for the Commission preparing its opinions on the suitability of individual countries for full EU membership.

Slovenia: on track to join the EU



Source: IBCA, the European credit rating agency

"We thought the train was leaving the station without us, but now we have a chance to grab it," said Mr Matjaz Sinkovec, Slovenian ambassador in London. "We are extremely glad about the decision of the British government and it demonstrates our excellent bilateral relations and a close understanding on a number of international issues including the widening of the EU."

Such understanding has for long been absent in the acrimonious relations between Ljubljana and Rome, which have soured Slovenia's early enthusiasm for the European cause.

Slovenia, an alpine republic bordered by Italy, Austria, Hungary, Croatia and the Adriatic sea, has always considered, that it should be at the front rather than at the back of the queue for EU membership, where it had been consigned by the former rightwing Italian government of Mr Silvio Berlusconi.

Capitalising on Slovenia's newly won independence, Rome demanded that Italian citizens, or their descendants, be able to recover property owned in what was once Italy's and is now Slovenia's part of the Istrian peninsular.

In 1945 many Italians living in the coastal area of Istria south of Trieste opted to leave their homes, forfeiting their properties, after administration of the area was awarded to Yugoslavia. Slovenia claimed that all these issues including financial compensation had been fully regulated by two treaties in the 1970s and early 1980s, but the Berlusconi government decided otherwise.

The impasse was broken by the new leftwing government of Mr Romano Prodi, which has been more sympathetic to its small neighbour's pleas, accepting a compromise which will be reflected in an exchange of letters annexed to today's association agreement.

Crucially Slovenia has made two concessions. First it is committed to allowing all EU citizens to buy land and property in the country, on a reciprocal basis, within four years of the association agreement being ratified.

Secondly, any EU citizens who have previously "permanently resided on the present territory of the Republic of Slovenia for a period of three years" will be allowed to buy property immediately the agreement is ratified.

Slovenia thought idealistically that it was escaping the minefield of Balkan politics by espousing the European cause, but winning the association agreement has been a hard education in the realities of EU negotiations.

"In Slovenia we realised with considerable surprise that the EU is in fact far from some ideal democratic association such as we imagined in the past," said Prime Minister Janez Drnovsek last year. "We realised that within it there is a continuous bargaining of interests, often entirely without principle."

Balkan nations oppose Brussels stance on ties

By Caroline Southey in Brussels

Attempts by the European Union to put pressure on the protagonists in the Yugoslav war to foster regional co-operation as a pre-condition for better links with the Union have met with a hostile reception.

In talks with Mr Jacques Santer, European Commission president, and with Mr Lamberto Dini, the Italian foreign minister, leaders in Sarajevo, Zagreb, Belgrade and Skopje made it clear that they wanted closer relations with the EU, but on independent terms. All rejected the EU's "regional approach" under which Brussels has offered closer relations but only on evidence that the countries are committed to working together.

Mr Dini, representing Italy which holds the EU presidency, and Mr Santer will report back to EU foreign ministers today ahead of a conference in Rome at the end of this week to review the Dayton peace agreement.

In a two-day tour Mr Dini and Mr Santer met the leaders of Bosnia-Hercegovina, Croatia, the Federal Republic of Yugoslavia and the former Republic of Macedonia. Attention was focused on the EU's future relations with the four countries. But the talks were also dominated by growing pressure to fix a date for elections in Bosnia-Hercegovina, the fact that indicted war criminals were still at large and problems with the pace of reconstruction in Bosnia-Hercegovina.

Mr Hasan Muratovic, prime minister of Bosnia-Hercegovina, rejected as unacceptable the EU's insistence on "economic conditionality" under which the Union will offer concessions only if the countries offer similar terms to one another, such as allowing the free movement of people and free trade in goods and services. Mr Muratovic said Bosnia was being "held a hostage of Serbia" and that the country wanted to be "accepted by the EU as soon as possible".

In Zagreb Mr Dini emphasised that Croatia appeared committed to normalising relations with the other countries.

However, President Franjo Tudjman was adamant the EU should treat Croatia as a central European country – all central European nations have signed association agreements with the EU as a first step to full membership – and not as a member of the Balkans.

In Belgrade Mr Santer held out the possibility that Serbia could gain access to regional aid and better trade terms with the EU once the Dayton peace accord had been implemented and elections been held. EU officials said Serbian President Slobodan Milosevic had pressed for closer trade links with the EU.

"He said he did not want aid as much as more trade," said an official.

The strongest resistance to the EU's policy surfaced in Skopje which is shortly to sign a trade and co-operation pact with the Union. Mr Dini sought to reassure Mr Kiro Gligarov, president of the former Republic of Macedonia, that the EU's insistence on having a regional co-operation clause in the agreement would not interfere with upgrading ties in the future.

Mr Dini is confident that a date for elections in Bosnia-Hercegovina, which under the terms of the Dayton accord have to be held by September 14, will be announced at the Rome meeting. But there are growing fears that the conditions for fair elections, such as independent media and free movement of people, have not been fulfilled.

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Zyuganov leaves voters guessing over true instincts

When Mr Gennady Zyuganov, the Communist party presidential candidate, campaigned recently in the northern Russian town of Novgorod, dissenting students unfurled a red banner on the balcony of the packed hall.

"Gennady Andreyevich, where is the truth? In Davos or in the Communist party programme?" the banner read before it was ripped down by furious party members.

As Russia enters the final week of the election campaign, such questions are still puzzling the country's 105m voters.

If they elect Mr Zyuganov on Sunday will he become the modern-minded pro-market democrat who impressed the World Economic Forum in the Swiss resort of Davos? Or will he become the embodiment of the party's reactionary will, bent on restoring Soviet power?

Part of the answer has emerged in Mr Zyuganov's 20-page economic programme, the subject of much debate. The report's mixture of cheap sloganeering and more detailed economic analysis creates one clear impression: Mr Zyuganov will strive to be both types of leader simultaneously – however contradictory that may prove in practice.

Written by economists, the programme savages the economic effects of the "monetarist neutron bomb" exploded by President Boris Yeltsin and presents an alternative Utopian vision for Russia's long-term recovery. Its three-stage action plan extends to 2010 by when the then 76-year-old President Zyuganov would be well into his fourth term.

Mr Eugene Rumer, a Moscow-based analyst for the US Rand Corporation, says: "I like their analysis of the problem very much. It is the solution which is lunatic. It has all been tried before in Soviet times and did not work. As the saying goes, it is *déjà vu* all over again."

While recognising mixed property rights and the value of foreign investments, the programme's central thrust is to revive domestic manufacturing industry and reassert Russia's economic sovereignty. With the mechanistic precision of the Soviet year plans, the programme forecasts the growth rates of different branches of industry over the next 15 years.

The chief elements include:

- Forcing oil and gas companies to cut their prices to stimulate manufacturing industry;
- *Raising import tariffs to protect* domestic manufacturers while re-establishing a state monopoly over strategic exports;
- Creating a state-controlled industrial reconstruction bank to invest in strategic sectors;
- Increasing state spending on social welfare, pensions, education, and science;
- Forcibly curtailing capital flight and encouraging savers to exchange US dollar savings into roubles.

It is hard to find an independent economist with a kind word for such remedies. Rather, they argue the programme highlights the authors' inability to appreciate how much the economy has changed and betrays a Soviet-era mindset, which stresses that industrial output is the only worthwhile economic measure, irrespective of whether the goods produced have any market value.

Mr Andrei Illarionov, director of the Institute for Economic Analysis and a sharp critic of the current government's policies, describes the programme as a dissonant "hymn to the state". "The attempts to increase state spending and promise everything to everybody. . . will create a situation where the state will once again crush the already weak and not very developed and effective economy," he says.

Others argue the programme would unleash a new wave of hyperinflation, which would devastate the pensioners and the poor whom the Communists are most anxious to help. "Mr Zyuganov seems to believe money supply is the lifeblood of the economy and the more you have of it the better it is," says one western economist. "The programme is an angry mixture of populism and protectionism which shows a complete lack of understanding of basic economics."

If fully implemented, Mr Zyuganov's programme would violate the terms of the current government's $10.2bn three-year financial stabilisation loan granted by the International Monetary Fund.

Mr Michel Camdessus, the IMF's managing director, has left no doubt he would axe the loan if a future Communist government loosened the monetary reins and rebuilt trade barriers. By itself, that action would almost certainly spark a surge of inflationary expectations, a run on the rouble, the collapse of the government debt market, and a serious banking crisis.

However, some political observers argue Mr Zyuganov is above all a pragmatist, temperamentally conciliatory rather than confrontational, who would shy away from the implications of such a drastic scenario.

Mr Sergei Markov, a politics lecturer at Moscow State University, argues Mr Zyuganov is fired more by Russian nationalism than Marxism and would quickly compromise with economic reality to retain power.

"Mr Zyuganov is not a Communist, he is a nationalist," Mr Markov says. "His policy will not be to struggle against capital but to direct it towards nationally-oriented goals."

The only true test of such observations would be how quickly Mr Zyuganov shreds his own ideological economic prescriptions on entering office.

John Thornhill

BOJ ponders timing of interest rate rise

William Dawkins on Japan's economic recovery

It may seem perverse that the Tokyo capital markets greeted the latest evidence of Japanese economic recovery not with joy but alarm.

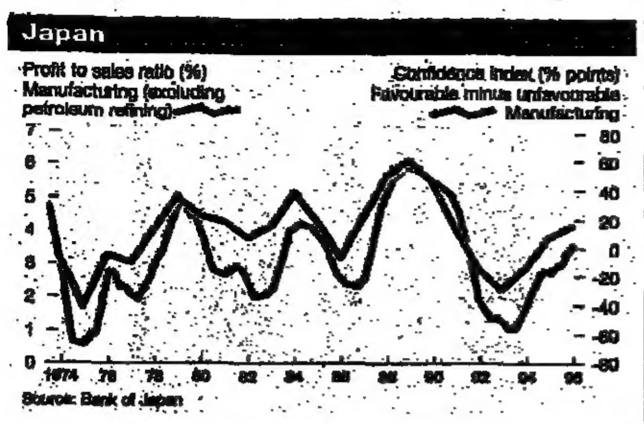
Bond and equity prices fell sharply as news leaked out on Friday morning that the Bank of Japan's latest Tankan quarterly corporate survey, the most authoritative guide to the short-term economic outlook, would show a greater than expected rise in business confidence.

In the event it did just that. A balance of minus 3 per cent of manufacturing companies surveyed said conditions are improving, the best score for four and a half years. That compares with the minus 8 per cent expected by the market. When last polled by the BOJ in February, a balance of minus 12 per cent said conditions were brighter.

Investors' alarm is rooted in the fear that the central bank might be prompted by signs of better times to advance the day when it will raise the official discount rate from the record low 0.5 per cent at which the BOJ has kept it since last September.

The worry is that premature tightening could easily choke Japan's gathering economy, and drive up the yen's value against the dollar, spreading instability across the world's financial markets. "Raise interest rates? The message from the market to the BOJ is: don't you dare," said one US economist as he took a break from the market turmoil for a quick beer and sushi.

A closer look at the BOJ's stance and at Japan's economic fundamentals does indeed suggest no real reason for panic. The BOJ was quick on Friday to argue that the survey result was only moderate, and to voice anxiety over the impact of the fall in world semiconductor prices on corporate profits. Senior private sector bankers think the BOJ is unlikely to rethink its monetary stance at least until the next Tankan in September and that it will tighten only if that survey proves the balance



between companies reporting good and bad conditions has clearly become positive, for the first time since 1991.

Certainly, the BOJ is not behaving as if it is about to raise interest rates, despite the occasional hint from Mr Yasuo Matsushita, the governor, of the eventual need to tighten.

The bank is pumping cash into the economy, as measured by creation of new bank notes, at the fastest rate for six years. It continues to guide the overnight rate, at which commercial banks lend to each other, slightly below the ODR, an unusual tactic taken only when the need for loose monetary conditions is urgent. It is doing this not just to encourage manufacturers to borrow, but to help the weaker banks raise cash to clean up their balance sheets, one of the biggest unresolved questions over the recovery's sustainability.

All this suggests the BOJ should be the last to be surprised by the extent of the business upturn. It did, after all, largely create it, argues Mr Richard Werner, chief economist at Jardine Fleming Securities in Tokyo.

Another reason for the BOJ to delay a rate rise is an imminent tightening in fiscal policy. Last September's record Y14,220bn ($130bn) public spending package is expected to be exhausted by the autumn. The finance ministry has hinted that there might be another, smaller package, to help compensate. But overall, the fiscal stimulus will decline, predicts Mr Jeffrey Young, economist at Salomon Brothers Asia. A second fiscal squeeze is very likely next April, when the government is committed to increasing consumption tax from 3 per cent to 5 per cent .

All this, however, does not exclude the central bank from using gentler means, apart from raising the ODR, to bring a gentle tightening in monetary policy. It could, for example, allow the overnight rate to drift above the ODR.

The BOJ may be tempted to do just that, in view of Mr Matsushita's recent reminders of the role played by excessively low interest rates in fuelling the asset price inflation which preceded the price collapse and economic stagnation from which, five years later, Japan is now recovering.

For the moment, however, inflation is a remote prospect. Nearly two years of consumer price deflation came to an end at the start of 1996 and consumer prices are now rising at a mere 0.2 per cent, though wholesale prices continue to fall. But even so, that puts real overnight interest rates at less than 0.3 per cent, if consumer price data are to be trusted.

Thus, money has become one of the few commodities available almost free in what is otherwise one of the world's most expensive countries. In these conditions, argues Salomon's Mr Young, a rise in overnight rates might be sensible.

Insurers 'paid $130m to N Korea'

By John Burton in Seoul

North Korea received $130m in foreign insurance payments for 1994 crop damage, according to South Korean officials. The disclosure is an apparent effort to undermine international support to ease the North's present food shortage.

South Korea claimed there was no indication that Pyongyang had used the insurance money to buy food supplies from abroad in spite of growing grain shortages resulting from floods last summer.

The disclosure of payments by eight foreign companies came shortly after the United Nations asked member countries for $43.6m for food aid to North Korea.

South Korean officials denied they were trying to spoil the UN humanitarian effort but added that the insurance payments could affect decisions on bilateral food aid to North Korea by Seoul and its US and Japanese allies.

South Korea has strongly objected to offers of food aid to North Korea until Pyongyang agrees to accept four-party peace talks that would include the two Koreas, the US and China. Seoul has claimed that reports of starvation in North Korea are exaggerated and that food shipments from overseas are going to military forces rather than civilians.

Officials in Seoul named the companies that provided insurance payments to North Korea as Chiyoda, Liberty Mutual, Lloyd's, Generali Reinsurance, Aarchner Reuk Reinsurance, GIO and Terra Nova, with Fenchurch International Reinsurance acting as broker.

North Korea signed an insurance agreement in 1992 that stipulated it would receive payments for 60 per cent of crops destroyed through natural causes.

The $130m received relates to crops lost to cold weather in 1994. It is now negotiating with foreign insurers on compensation for crops destroyed by last summer's floods, according to Seoul officials.

Crowds cheer Ms Aung San Suu Kyi (inset), Burma's pro-democracy opposition leader, as she addressed them yesterday. Ms Suu Kyi maintained a slightly softer line than in previous speeches in her campaign for change but said that with the support of the people, victory was inevitable, Reuter reports from Rangoon.

However, the ruling military government gave no indication it might open talks with the opposition, continuing verbal attacks on Ms Suu Kyi and her National League for Democracy (NLD) party and warning it would not tolerate dissent. Ms Suu Kyi told the crowd of some 4,000 people lining the street outside her Rangoon home that, with their help, she was confident of success.

Indian PM raises prospect of high-level talks with Pakistan

By Farhan Bokhari in Islamabad and Mark Nicholson in New Delhi

Mr H.D. Deve Gowda, India's new prime minister, has raised the prospect of the first high-level talks between India and Pakistan for more than two years amid further signs from Islamabad of a possible advance in trade relations between the two frosty Asian neighbours.

Indian news agencies yesterday said Mr Gowda had replied to a conciliatory letter from Ms Benazir Bhutto, Pakistan's prime minister, sent on Mr Gowda's assumption to power last month, by saying his government was "ready to work, together with your government, to address issues of mutual concern".

The letter follows remarks from Mr I.K. Gujral, India's foreign minister, promising that New Delhi would offer a "helpful" reply to Ms Bhutto, who made an offer to resume talks in her letter. No date has been set for any such talks, likely at first to be at the level of senior officials.

Relations between the two countries have stagnated over the past two years, blighted by irreconciled differences over the disputed territory of Jammu and Kashmir.

The countries have fought three wars since partition in 1947, two over Kashmir, where low-level hostilities have continued since the early 1970s.

However, a further sign that Pakistan might be willing to tender some goodwill to India's new government came as a senior Pakistan official said yesterday Islamabad would decide within the next three months if it should open bilateral trade with India.

The official, who requested anonymity, said: "If we decide to open trade with India, which some estimate could rise to an annual volume of Rs10bn ($286m), the basis of our relationship may change". Analysts believe larger trade between the two countries could help underpin any resumed dialogue on vital security issues.

Indian officials have already welcomed hints of a trade opening as "encouraging and positive".

The official's remarks followed a statement by Mr Ahmed Mukhtar, the commerce minister, who told reporters on Saturday, that Pakistan had committed itself to granting a Most Favoured Nation trading status to India, but was still examining the impact of opening trade with its neighbour.

Mr Mukhtar told reporters at a seminar: "We are carrying out studies in different sectors, the engineering sector, the agriculture sector, and then we have narrowed the sectors in which we play a very major role and once the report comes back on these studies, then we will be able to finally decide granting of this (MFN) status".

But Mr Mukhtar said Pakistan was concerned about India's non-tariff barriers and quota restrictions, an issue which would have to be resolved before Islamabad could make a final decision. He also down played fears that opening trade with India would jeopardise Pakistan's vital security interests.

Pakistani critics of the move have charged that Islamabad would increase its dependence on India by opening trade and would eventually be forced to compromise its claim on Kashmir.

World Bank agonises over debt relief

Robert Chote on efforts to speed help to poor countries under a multi-billion dollar initiative

The World Bank's executive board will today discuss how to speed up its assistance to poor countries under the multi-billion dollar debt relief initiative it is trying to assemble with the International Monetary Fund.

Several governments and aid agencies have criticised early proposals drawn up by the multilateral institutions, saying they demand an excessively long record of good behaviour before countries can become eligible for extra debt relief.

Bank staff will today propose accelerating their assistance under the initiative, but officials say the mooted changes will still not satisfy such countries as the US and UK that the bank – let alone the IMF – is doing enough.

The board meeting takes place against a background of continued disagreement between staff at the bank and the IMF as to how much the debt relief initiative will cost. Rough estimates vary from $5.6bn to $7.7bn. Similarly, there is no consensus on how these costs should be shared between government, commercial and multilateral creditors.

At present the initiative demands an initial three-year record during which an eligible country would receive help from its creditors under existing terms.

A second three-year period would then follow, at the end of which the Paris Club of creditor governments would provide extra debt relief to a set limit beyond the present so-called "Naples terms".

The multilateral institutions would then provide relief on debts owed to them sufficient to reduce the country's overall debt burden to a sustainable level.

At today's meeting the bank will suggest bringing forward some of its proposed help into the second three-year stage.

World Bank staff propose that credits from the International Development Association (IDA), its soft-loan arm, should be used to ensure that there is a positive net transfer of resources from the bank to the country concerned throughout this period.

Because these credits might make the country's debt burden worse, IDA grants would be used simultaneously to ensure that its ratio of debt to exports did not increase.

Oxfam International, the aid agency, said this represented "important progress" by the World Bank in addressing worries about the lengthy timeframe. It added that although the new proposals were welcome, it was still not clear why there needed to be a second stage at all.

The executive board will also discuss a paper giving provisional costings for the debt initiative, drawn up by World Bank and IMF staff.

COSTS OF POOR COUNTRY DEBT INITIATIVE
(US$bn at 1996 net present value)

	90% debt relief by bilateral and commercial creditors	80% debt relief by bilateral and commercial creditors	90% debt relief with export growth 2% lower
Bilateral and commercial creditors:	3.6	2.4	3.8
Paris Club	2.9	1.9	3.1
Other governments	0.6	0.4	0.6
Other comm. creditors	0.1	0.1	0.1
Multilateral creditors:	2.0	3.2	3.9
World Bank	0.7	1.1	1.5
IMF	0.5	0.8	0.9
Others	0.8	1.3	1.5
Total	5.6	5.6	7.7

Source: IMF and World Bank staff estimates

These assume that 13 countries would need extra help under the initiative to reduce their debt levels to a supposedly sustainable 200 per cent of exports. The staff estimate that this would cost around $5.6bn in net present value terms, with three-quarters of the costs falling in the period 2002-2003.

The distribution of these costs between the various creditors depends on how much assistance the Paris Club governments are prepared to provide.

The World Bank and IMF proposed initially that the Paris Club should raise the 67 per cent relief on eligible bilateral debt which is already available under the Naples terms to 90 per cent. This would leave the multilateral institutions paying $2bn and the bilateral and commercial creditors $3.6bn.

But the Paris Club governments believe the IMF and the bank should bear more of the costs. If the Paris Club stepped up relief only to 80 per cent, as the UK has suggested, then the costs borne by the multilateral creditors would rise to $3.2bn and those borne by the bilateral and commercial creditors would fall to $2.4bn.

The Paris Club is considering stepping up its relief by widening the definition of eligible debt as well as by raising the percentage relief offered.

This issue of burden-sharing is proving contentious in the run-up to the Lyons summit of heads of government and finance ministers from the Group of Seven leading industrial countries, which takes place later this month.

As hosts, the French want development to be a keen theme of the summit and they would dearly like to foster a breakthrough on the debt initiative.

Officials also hope that the summit may help resolve how the IMF should pay for its contribution to the initiative. Mr Helmut Kohl, the German chancellor, will come under pressure from the UK, US and France to relax his country's resistance to the sale and reinvestment of part of the IMF's $40bn gold reserves.

Some officials believe the IMF is also deliberately trying to minimise its financial commitment to the debt initiative by insisting on unrealistically optimistic assumptions for poor country exports in the costings exercise.

The baseline costings assume that poor country exports grow by 6.5 per cent a year between now and the end of the decade, almost double the 3.3 per cent recorded in the early 1990s.

Some officials, especially in the World Bank, think export growth will be at least 2 percentage points lower. They estimate that this would raise the cost of the debt initiative from $5.6bn to $7.7bn.

Bahrain ruler broadens plot accusations against Tehran

By Robin Allen in Dubai

Sheikh Isa bin Sulman al-Khalifa, the emir of Bahrain, yesterday said an alleged pro-Iranian plot to topple his government was also aimed against other countries in the region.

In an interview with Kuwait's al-Seyassah newspaper, Sheikh Isa accused Iran of backing a terrorist plot against Bahrain, adding that Tehran was planning to use Bahrain as a "transit" point for the region.

Last week Bahrain said it had foiled a plot to topple the government by armed revolution and install a pro-Iranian regime. It withdrew its ambassador from Tehran and downgraded diplomatic relations to the level of charge d'affaires.

Shia Iran denied meddling in Bahrain, where members of the island state's Shia majority have waged an 18-month campaign of bombing, arson and sabotage against the government. At least 25 people have died in the unrest.

Senior diplomats and businessmen remain unconvinced by the government's latest efforts to lay blame on Iran for the unrest. "It is good theatre and the government's side of the story makes good reading," said one diplomat.

"For many Bahrainis this in itself gives the government some credibility." But "demographics, domestic poverty and lack of job opportunities for many young Bahrainis tell a different story."

Bahrain has a population of about 550,000 – including some 370,000 expatriates, mostly Asians. Senior officials acknowledge the national population is growing faster than the economy.

Some bankers and diplomats talk of the unrest "bubbling on", but others are more emphatic. "The root causes are domestic, and will not simply go away by blaming Iran or arresting a few suspects," one western banker said.

"It will only get worse unless the government either deports its disaffected citizens en masse, which would cause a regional crisis of confidence, or addresses poverty and unemployment among thousands of its nationals."

The arson and bombing campaign has dented business confidence. Average occupancy rates in many of Bahrain's five-star hotels, two of which have suffered bomb attacks, have stayed below 20 per cent.

There is also a notable absence of Saudis, thousands of whom normally cross into Bahrain to take advantage of the state's liberal drinking laws.

The Saudi presence is felt in other ways. From April 1 Riyadh increased Bahrain's annual income by more than $200m by allocating to it all Saudi Arabia's share of revenue from the Abu Saafa oil field. The extra $200m will cover last year's estimated budget deficit.

But there is a price to pay. The subsidy has reinforced Riyadh's political control over Bahrain, which businessmen already believe is considered as Saudi Arabia's 15th province.

"Saudi Arabia's political control ensures that Bahrain will not contemplate anything more than superficial political reform," said one.

Sheikh Isa: Bahrain viewed as 'transit' point for region

OBITUARY: MAX FACTOR

From Hollywood 'extra' to a master of illusion

Max Factor, one of Hollywood's most enduring masters of illusion, and one of its least celebrated entrepreneurs, died of heart failure at the weekend.

The man who created camouflage for Marlene Dietrich, Rudolf Valentino and the US Marine Corps – and offered the promise of film star looks to millions of merely mortal women – was 91.

He was the son of a Russian Jewish immigrant, who started life as Francis and learnt his trade at the side of his father in Max Factor's Antiseptic Hair Store. He learnt about films in his many roles as an "extra" in early silent movies, jobs which he took as a matter of convenience since one of his early tasks was to bring wigs back to the shop after each day's filming.

From providing hairpieces to Los Angeles theatrical companies, the shop graduated to greasepaint and evolved into a high-technology business as film making gained in sophistication.

The company's breakthrough product – and progenitor of millions of powders and potions – was Pan-Cake, introduced in 1935 in response to the quirky way Technicolor film translated normal flesh tones into a sickly green.

Slightly less garish mass-market variants, including Pan-Stik, reached retailers shortly afterwards, and were followed by a steady stream of products which reflected the influence of Hollywood's dream factories on everyday life.

In the age of the weepie, waterproof mascara became vital to both film makers and filmgoers.

As screen sex reared its head, Max Factor's smudge-free Tru-Color lipstick was as important to the industry as the federal dictum that in intimate bedroom scenes the male actor must keep at least one foot on the floor.

Max Factor-branded products were already entering export markets when the founding father died in 1938, leaving the creative Max Jnr and his business-minded brother, Davis, in charge.

The company entered its heyday with global advertising campaigns which featured the blemish-free complexions of the likes of Veronica Lake, Lana Turner and Judy Garland. By 1950, when the company's World of Beauty range was introduced, Max Factor employed more than 10,000 staff. It led the move to sell cosmetics as everyday products, displaying them on shop shelves rather than behind special counters staffed by mannequin-like "consultants".

The company was sold in 1973 to the Norton Simon group for $480m. Since then it has changed hands several times and is now relegated to the role of a middle-market brand in the portfolio of Procter and Gamble.

Factor, who had a consistently low-profile role in the company and business circles, was known for his modest tastes and, unusually in Hollywood, for his humanity.

He endowed buildings at Cedars-Sinai hospital and the University of California, Los Angeles. But his most enduring memorial is likely to be the company's art deco former headquarters in Hollywood Boulevard, soon to be a museum of moviedom's history.

Christopher Parkes

ILO steps up efforts to end child labour abuses

By Frances Williams in Geneva

The International Labour Organisation is stepping up its campaign against child labour with a call to action by member countries to eliminate the most abusive and exploitative forms of work by children.

In a report published today, the ILO estimates that some 73m children aged 10-14 years are employed worldwide, more than 13 per cent of the age-group. In Africa a quarter of 10-14 year-olds are in work.

The ILO says that including younger children in work, where no reliable figures are available, and girls working full-time at home, "the total number of child workers around the world today might well be in the hundreds of millions".

Ministers from the ILO's 173 member states meet in Geneva on Wednesday to discuss how to speed efforts to eliminate child labour, especially its most damaging forms such as forced or slave labour, work with dangerous chemicals and child prostitution.

The ILO runs technical assistance programmes in 22 countries on child labour and has a number of labour standards (conventions) designed to end the practice. However, the main convention, setting 15 as the minimum working age, has been ratified by only 49 countries.

The organisation now plans a new convention focusing on the worst abuses – though, under the ILO's stately procedures for agreeing labour standards, it will not be ready until 1999.

The extent of child labour has grown in Africa and Latin America in recent years, though it is declining in Asia, especially south-east Asia. There has also been an increase in central and eastern Europe and the US, according to the ILO, which links the trend with economic insecurity and more flexible work practices.

Despite a rise in working children in the world's cities, nine out of 10 children work in agriculture or linked activities in rural areas and most children are employed within the family rather than working for outside employers, the report notes.

Child labour: What is to be done? Available from ILO Publications, CH-1211 Geneva 22.

INTERNATIONAL NEWS DIGEST

Call to break up Ontario Hydro

Ontario Hydro, North America's biggest electric power utility, should be broken up and private investment encouraged in its non-nuclear stations, according to a report by Mr Donald Macdonald, a former Canadian finance and energy minister.

A third of Ontario Hydro's power plants should be sold but the five nuclear stations and the Niagara Falls hydro plant should remain publicly owned, the report said. This would mean that 30 per cent of the generating system would be privatised. Total capacity now is more than 30,000MW.

The report, sponsored by the Ontario government, said the distribution system throughout Canada's biggest province should be made competitive. Independent power producers from other parts of Canada and the US should compete in the Ontario market.

Mr Macdonald said Ontario Hydro's 90-year-old monopoly had proved a "disaster" and no longer had any economic justification. Opening up the market would lead to lower rates and a reduction in the utility's long-term debt, now well over C$30bn (US$21.8bn).

Ontario Hydro, which has assets of C$43bn, generates 94 per cent of the province's power and distributes it to municipalities. Even a partial sell-off is likely to prove controversial. Polls have shown that 66 per cent of the population oppose privatisation. *Robert Gibbens, Montreal*

Taiwan cabinet cheers business

Taiwan's new cabinet, announced on Saturday, has prompted favourable reaction in the local business community. Mr P.K. Chiang, former minister of economic affairs, has been appointed to head the Council for Economic Planning and Development, the highest economics-related policy-making body. His old job has been filled by Mr Wang Chih-kang, an academic specialising in marketing and management, previously in charge of the Fair Trade Commission, while Mr Paul Chiu, former Central Bank of China deputy governor, has been appointed minister of finance.

A local business leader said: "These three have a good relationship with businessmen and understand their problems." The men are part of a cabinet selected, according to premier Lien Chan, with the specific aim of raising Taiwan's competitiveness so that it ranks among the world's top five nations. *Laurence Eyton, Taipei*

Muted protest over China blast

China yesterday faced only muted condemnation of its latest nuclear test, apparently heading off criticism by its promise to end all testing after just one more explosion this year. There were no threats of retaliatory action such as trade sanctions in the international protests issued after Saturday's blast, and only minor street demonstrations were reported around the world.

The reaction contrasted sharply with the outraged protests which greeted previous Chinese tests and last year's series of nuclear blasts carried out by France.

In announcing the latest test, China said it would detonate another nuclear device before September, after which it would exercise a moratorium on nuclear testing. *Reuter, Tokyo*

■ China yesterday released Mr Ren Wanding, veteran dissident, after seven years in prison for his role in 1989 pro-democracy demonstrations, but promptly whisked him away to an undisclosed location in northern China.

Mr Ren was jailed for accusing Beijing of human rights abuses and urging freedom for political prisoners during the student-led demonstrations which were crushed by the army on June 4, 1989.

He was one of the founders of the China Human Rights League in 1978. The group folded a few months later after police arrested most of its members. *Reuter, Beijing*

Iraq oil minister in Paris talks

General Amer Rasheed, Iraqi oil minister, today holds talks with French officials and senior French business leaders. Gen Rasheed arrived in Paris on Saturday on his first visit to France.

Paris has supported a lifting of the oil export ban on Iraq imposed after the Gulf war. The UN Security Council agreed last month to allow limited exports to pay for food and medicine. In Vienna on Friday the Organisation of Petroleum Exporting Countries (Opec) agreed to allow Iraq to export 800,000 barrels a day.

Tomorrow Gen Rasheed is scheduled to attend a meeting of French business leaders organised by the CNPF, the employers' organisation. Several French companies are interested in investing in Iraq, and Baghdad is in talks with the oil companies Total and Elf on exploiting Iraqi oilfields. *AFP, Paris*

Team tackles germ warfare site

A United Nations germ warfare team is dismantling Iraq's main biological weapons site, a senior UN arms official said yesterday. "We are destroying the al-Hakam in the same manner as Muthana [a chemical weapons site] was destroyed," said Mr Goran Wallen.

Mr Wallen said the scrapping of al-Hakam would rid Iraq of equipment that could enable it to engage again in germ warfare. The site, 80km south of Baghdad, escaped allied bombing during the 1991 Gulf war that ended Iraq's seven-month occupation of Kuwait. Under the Gulf war ceasefire terms, Iraq is to be stripped of weapons of mass destruction and the means to produce them. As the UN team destroyed the site, another team began arriving in Baghdad to rid Iraq of other banned weapons. *Reuter, Baghdad*

Peru's small investors given sell-off call

Good local demand is vital in privatisation of Telefónica del Perú, writes Sally Bowen

"Treat me with a bit of respect, my friend," an oil-stained though cheery garage mechanic tells his customer. "I'm going to be a shareholder."

The television advertisement forms part of a multi-million dollar publicity campaign in Peru designed to persuade tens of thousands of middle-income Peruvians to buy shares this month in Telefónica del Perú, the former state telecommunications monopoly in which Telefónica Internacional of Spain acquired a controlling stake in February 1994.

Now Peru is putting the bulk of its retained 28.6 per cent stake, worth up to $1.4bn, on the market. Offers for the domestic tranche began last Monday, with applications from Peruvian institutional investors – mainly insurance companies and private pension funds – and individuals.

The complementary but larger international offering kicked off this weekend with a road show, orchestrated by J.P. Morgan and Merrill Lynch, making presentations in 23 cities in the US, Europe and Japan. The price per share will be announced on July 1, but it is expected to prove one of Latin America's biggest equity offerings this year.

"A good level of local demand is crucial to a successful international outcome," says Ms Susana de la Puente, J.P. Morgan's vice-president for Latin America.

It is not clear yet, however, if the state's entire holding will be disposed of. "A second offering a year or two down the line – as was done with Telmex – is possible," she says.

Middle-income and lower middle-income Peruvians are being targeted through a scheme called "citizen participation". The scheme's organising committee, headed by Mr Javier Tovar, hopes some 80,000 Peruvians will have applied to purchase Telefónica shares by the end of the month.

His team has designed a powerful series of incentives. Individuals may buy packages of shares in units of 500 soles (about $200) to a maximum of 20,000 soles ($8,000). Domestic investors who pay by instalments – putting 10 per cent down, the remainder over 18 months – will get a 10 per cent discount on the international offer price.

Subsidised credit is available to those paying by instalment at just 1 per cent a month in local currency, a low rate for Peru. Cash buyers get a 5 per cent discount.

Citizen participation is geared to creating a shareholder mentality and boosting low levels of domestic savings. To encourage this, Peruvians who hang on to their investment for 18 months will get one free share for every 20 held.

"This is Peru's first large-scale privatisation and will form the basis for similar operations in the future," says Mr Raimundo Morales, general manager of the Banco de Credito, Peru's largest bank and domestic co-ordinator of the offering. "It will give the liberal economic model a permanence which is extremely important."

Telefónica's ambitious offering builds on the experience of a late-1994 pilot scheme under which 19,000 small investors paid about $35m to acquire state-held shares in the cement company Cementos Norte Pacasmayo.

The citizen participation committee, advised by the local research organisation Apoyo and Spanish bank Argentaria, has also drawn on experiences in the UK and Spain.

"But we've had to adapt to local circumstances," says Apoyo's Mr Augusto Alvarez. "In Europe you could rely on the postal service to deliver applications: here, that's not possible. And in Europe almost everyone has a bank account: here, they go along and pay in cash."

Local response last week looked promising. Officials reported $140m worth of domestic orders in the first two days.

The 42 financial institutions (mainly banks and brokerages) taking part had set up special counters to assist share purchases. Business seemed relatively brisk.

Peru's privatisation officials will count it a success if they can place $200m in shares with 60,000-80,000 citizens. The "typical" new small investor will be a semi-skilled manual labourer who can afford to save some $11.50 a month.

"That may not sound much, but it's a highly valuable start to creating a culture of domestic savings: it's what the government is aiming at," says Mr Alvarez.

Telefónica shares are already widely traded in Lima. Although the company has come in for much criticism in the past two years for the disruption caused by upgrading services and inevitable price rises, it is perceived as solid and profitable.

Although recent investment has been staggering by Peruvian standards, unsatisfied demand remains high. If Peru's gross domestic product expands by 6 per cent a year between 1997 and 2000 – as the government expects – the number of lines could triple to 14 per 100 people, say Telefónica officials.

Assuming the Telefónica initiative is successful, the citizen participation mechanism will be repeated with the sale of stakes in other part-privatised companies, notably Lima's electricity distribution companies and Banco Continental.

Contractors eye shifting sands of Gulf states' defence needs

Bernard Gray sees renewed interest in buying military hardware

FIGHTING FOR SALES: Dassault's Rafale fighter (top left), and Mirage 2000-5 (top right) and the McDonnell Douglas F-15 compete for air space in the Gulf. On the ground the French Leclerc battle tank (bottom left) is pitted against the UK's Challenger II

Last week's leak that British Aerospace was to win a $100m contract to supply Kuwait with anti-ship missiles was the first sign that arms sales to the Gulf are starting to pick up.

Arms makers, who have always had to live with feast and famine in the Gulf, have been going through a particularly lean patch.

Following the end of the Gulf war a grateful Kuwait and Saudi Arabia placed huge contracts with western arms makers.

Saudi Arabia alone bought 72 more F-15 fighters from McDonnell Douglas in the US, worth over $5bn, 48 Tornado bombers from BAe for over $3bn as well as US Abrams tanks and a host of other equipment.

Kuwait diplomatically bought substantial amounts of US aircraft, French warships and British armoured fighting vehicles. But the cost of paying for the war and subsequent rearmament coincided with a sharp downturn in the oil price and many Gulf states started to run up large budget deficits. Once the necessary gratitude to western powers had been shown, arms sales dried up.

Now, however, twin forces are beginning to encourage renewed interest in military hardware. Gently rising oil *prices and firm world demand* have started to reduce, if not eliminate, government budget deficits. At the same time nervousness about Iran is increasing.

For all his history of starting conflicts, Iraq's Saddam Hussein is largely seen as a known and constrained quantity in the Gulf.

While most states are wary, few think that Iraq can marshall the resources to mount an offensive campaign in the foreseeable future.

Iran is regarded very differently. *Members of the Gulf* Co-operation Council are concerned about the developing relationship between Russia and Iran, and the technologies which Russia could export to the fundamentalist state.

Russia, desperate for arms exports, has missile, fighter aircraft and nuclear technology which the Gulf states all fear.

In the front line of this potential confrontation is the United Arab Emirates. It has been looking for around 80 advanced combat jets, an order so large it has western defence companies drooling. The rich but small Gulf state is easily able to afford the $6bn to $8bn *initial price tag, as well as the* substantial running costs, but the UAE has been reluctant to commit itself.

This is partly because none of the aircraft on offer exactly meets its needs, and partly because the aim of the exercise is political.

By bestowing huge contracts on western companies, the UAE hopes to tie western governments to come to its aid if *trouble erupts.*

Significantly, any country which wants to win the contract is being required to sign *onerous defence co-operation* agreements.

The leading US aircraft contender is the heavyweight F-15 fighter. However, even this powerful jet has a number of drawbacks.

It lacks the range to strike at sites around Tehran without refuelling, and is unlikely to be supplied in a form which would allow it to carry long-range cruise missiles *capable of destroying airfields* or missile sites.

The lighter Lockheed F-16 would be useful for defending UAE airspace, but lacks the punch for heavy ground attack.

France seems well placed, not least because its Mirage jets are already in service with the Emirates air force.

France is also offering the UAE a version of its Apache cruise missile which could be fitted to the Dassault jets. However, the existing Mirage family is ageing, while the latest generation Rafale will not be in service with the French *air force for several years, and* the UAE may be reluctant to become the first customer for a new aircraft type.

Britain has offered a new version of its BAe Tornado GR4 bomber, which could strike at airfields from long ranges, but the Emirates seem reluctant to take a smaller number of Tornados for the strike role and F-16s for air defence because of the high *costs of maintaining many* aircraft types.

Rumours swirl about when the UAE will decide. Some *argue an order is imminent,* and others say a decision will be delayed until aircraft such as the four-nation Eurofighter become available. In practice, *the timing is likely to be* decided by which country is prepared to offer the UAE the cruise missile technology it wants at a price it is prepared to pay.

Gently rising oil prices and firm world demand have started to reduce government budget deficits

Saudi Arabia is also looking at two large arms purchases. It will need to replace its Grumman F 5 light fighters in the next few years, and is also looking to add another armoured brigade to its ground forces.

Of the two, the ground forces order is closer, with a competition being held in the sweltering heat of the Saudi desert this August.

The prize is an order to provide tanks and armoured fight*ing vehicles in an order which* could be worth $2bn to $3bn.

In contention are the US Abrams tank already in service with the Saudi army, the French Leclerc tank, which was bought by the UAE, and Britain's Challenger II, which has been selected by Oman.

Saudi Arabia has often tried to maintain two suppliers for its military equipment, partly to maintain competition, and partly to give it several diplomatic ties to the west.

This tends to argue in favour of the Leclerc of the Challenger, but does not rule out the Abrams which would have the benefit of commonality with the rest of the Saudi army. Given the teething prob*lems Saudi Arabia has* experienced with its current Abrams tanks, however, performance in the desert trials will be very important.

Britain has suffered in Saudi Arabia because of the dispute over the dissident Mohammed al Massaari. However, the situation does seem to be improving slowly, and the Challenger has not been ruled out.

The Saudi light fighter order is less well advanced, but seems to boil down to a choice between the F-16 and the BAe Hawk, with the F-16 the more likely choice.

Beyond these two large deals, the kingdom also has an interest in acquiring ballistic missile defences against Scud attacks, more minesweepers, and anti submarine hunting helicopters to detect the Iranian Kilo submarines supplied by Russia.

However, the course of future Saudi orders may depend on how the succession to King Fahd is resolved.

Other Gulf states such as Qatar and Oman also have smaller defence requirements, but seem in no rush to buy. How the succession issues are *played out in the large Gulf* states, and the diplomatic and defence leanings which follow change, are likely to be their guiding light.

For their part, western arms salesmen accept that while the Gulf has often been fertile ground for military sales, it is a region built on permanently shifting political sands.

That makes it increasingly difficult to predict future sales, and harder still to bank them.

Indonesia, BP reach project accord

By Manuela Saragosa in Jakarta

The future of a controversial Indonesian petrochemicals project appears secure following the weekend signing of a sales agreement with an Indonesian unit of British Petroleum.

Chandra Asri Petrochemical Complex, controlled by the president's second son, Mr Bambang Trihatmodjo, and a number of prominent Indonesian businessmen, received effective tariff protection of 25 per cent for its two main products – ethylene and propylene – last February, a move that surprised and angered many.

Economic protection for the plant has been a controversial topic for the past two years, emerging as a test case for Indonesia's apparent commitment to free trade.

The tariff protection was believed to be tailored to force a British Petroleum unit, Petrokimia Nusantara Interindo (Peni), which manufactures polyethylene, to conclude a sales agreement for ethylene with Chandra Asri.

It was clear from the start that Chandra Asri, which has substantial loans from the state-owned Bank Bumi Daya, would need some form of subsidy to be a commercially viable operation.

Under the five-year pricing structure agreed between the two parties, Peni will be paying a premium for the ethylene it buys from Chandra Asri "under certain conditions".

However, Peni officials maintain they are comfortable with this because the government will maintain a 40 per cent import tariff on polyethylene which will protect Peni's profit margins.

"We believe we have achieved a win-win agreement which will help clear the way for further development of the petrochemicals industry in Indonesia," said Mr Jim Hay, president director of Peni.

Chandra Asri will supply about half of Peni's ethylene needs, which will allow Chandra Asri to operate its ethylene cracker at about 85 per cent capacity, the minimum to make it commercially viable.

The remainder of Peni's ethylene requirements will be bought at market prices from two of its other shareholders, Japan's Mitsui and Sumitomo.

WORLD TRADE NEWS DIGEST

Taiwan to lift China ban

Taiwan will lift its ban on investment in China's securities and futures markets as of July 1, the Ministry of Economic Affairs announced at the weekend.

Officials at the ministry's investment commission said Taiwanese companies handling securities and futures investment would be allowed to set up offices in China to provide trading, consulting and securities services.

The new minister of economic affairs, Mr Wang Chih-kang, said banks would also be allowed to establish offices in China "soon." Plans to lift a ban on investment in department and convenience stores are at present awaiting Mr Wang's approval.

The investment commission also plans to lift restrictions on investment in the manufacture of 451 items, which will allow Taiwan investors to make such goods as projectors, dehumidifiers and lifts in China. *Laurence Eyton, Taipei*

Fast food for Vietnamese

US-based fast food group Kentucky Fried Chicken (KFC) is to open an outlet in Vietnam's industrial capital, Ho Chi Minh City – becoming the first big US fast food brand to open in the country since the end of the Vietnam war, the semi-official weekly Vietnam Investment Review said yesterday.

Hester Thew, country manager for Thailand, Burma and Indochina for Pepsico, KFC's parent, said the company had a verbal agreement to open up in Saigon Superbowl, a *Singapore-invested leisure complex near the city's airport.* Last week, 32 lanes of bowling opened at the facility – aimed at the growing middle class in Ho Chi Minh City – and a full opening is due in September.

Earlier this year, another smaller fast food chain, Texas Chicken, opened in the city, where similar establishments run by Vietnamese and Thai companies have been popular in the last two years.

Although the Americans were forced out of Saigon in 1975, a few signs of the US presence remain, from the battered 1970s Chevrolet vans used as delivery trucks to the baseball caps worn by many residents. *Jeremy Grant, Hanoi*

Crackdown on disc pirates

China yesterday trumpeted the closure of four illegal video and laser disc assembly lines – ahead of a new round of *copyright talks with the US aimed at averting a looming trade* war over piracy.

Public security officers in southern Guangdong province detained 11 suspects, closed down three illegal video compact disc assembly lines and seized more than 40,000 video discs in one raid on May 30, the official Xinhua news agency reported.

Police raided another video and laser disc plant in Guangdong's Guizhou town last week for illegally processing and packaging 110,000 video and laser discs, Xinhua said.

Washington and Beijing have announced tit-for-tat sanctions effective from June 17 if the two sides fail to agree on US demands for the closure of all Chinese businesses producing, selling or exporting pirated music, compact discs and software. Assistant US Trade Representative Lee Sands ended two days of talks in Beijing on Friday without a deal to avert a trade war, but US officials said a new round of formal discussions would be held this week. *Reuter, Beijing*

■ C-MAC, the Canadian electronics group, has won a contract worth more than C$11m (US$8m) to manufacture 240,000 desktop cellular telephones for Israel's Telrad Telecommunications.

Telrad is already a customer for C-MAC's interconnect equipment and circuitry. *Robert Gibbens, Montreal*

■ PZL-Swidnik, Poland's light and medium helicopter builder, will power its new Sokol multi-purpose twin-engined machine with Pratt & Whitney Canada's PT6C-65 turboshaft engines. The Sokol won US certification in 1993 and is sold internationally. *Robert Gibbens*

Notion of collective defence still a mirage

Robin Allen finds that historical animosities and concern for sovereignty hinder standardisation

Damping the prospect of *Gulf states spending* an estimated $60bn on new equipment between now and 2000 are the problems they have absorbing their existing array of weaponry.

Notions of "national independence" among the six ruling families have resulted in their armed forces being equipped with a goulash of weapons, new and old, from many different countries.

The overriding concern for sovereignty effectively quashed ideas for the "standardisation" of equipment, and "*inter-operability*" of command and control structures for the greater benefit of collective Gulf defence.

On a political level, Gulf states do not share a common strategy for collective defence. Historical animosities and divergent political priorities ensure they do not agree on the nature and direction of an external military threat.

This disparity of views has hampered US efforts to convince them of the progressive military threat from Iran, particularly through its acquisition of conventional diesel and midget submarines, as well as missiles, and its perceived ambitions to develop nuclear and other weapons of mass destruction.

Unlike the US, Gulf rulers believe in the adage "to name an enemy is to make one". They regularly deplore Iran's occupation of Gulf islands claimed by the UAE, but stop short there.

Without a common defence strategy, Gulf states are free to pursue their individual preferences for "the latest and the best", as one diplomat put it.

Among the big spenders, only Abu Dhabi has a sufficiently large cushion of capital that it can comfortably afford a $6bn-$8bn price tag for new aircraft. But other difficulties await defence contractors in *Abu Dhabi.*

"The Abu Dhabians are masters of the art of keeping defence contractors on tenterhooks," said one senior diplomat.

Disparity of views hampers US efforts to convince the Gulf states of the military threat from Iran

"They are tough negotiators and very secretive. They announce bid deadlines and watch with wry amusement as western suppliers get more and more twitchy. Then the deadline passes, and they announce another deadline. This is all part of the game."

Contenders for Abu Dhabi defence contracts – including Russia, "which should not be written off", one senior diplo*mat commented* – have had problems satisfying Abu Dhabi's 60 per cent offset requirements.

These, according to industry sources, are so far beyond Abu Dhabi's capacity to absorb that only one serious offset deal has been signed in six years. This lone deal beat all records by being awarded *before* the main defence contract on which offsets, by definition, are supposed to hang.

Both Kuwait and Saudi Arabia face budget and other constraints. Senior diplomats in both countries warn that the days of free spending are over, unless and until oil prices, on which both countries count for more than 75 per cent of their annual revenue, substantially recover.

No big defence orders are expected this year, when general elections are due to be held for Kuwait's national assembly.

In addition, Kuwait's armed forces "have manpower problems and are struggling to integrate billions of dollars of new weapons," according to senior diplomats.

Saudi Arabia has cut this year's defence and security spending by almost 9 per cent to some $12bn following 13 successive years of budget deficits. The Saudi armed forces are also having enough difficulties "digesting" tanks, aircraft and armoured personnel carriers already delivered.

هكذا من الاصل

US regulators lobby for special terms

By Ralph Atkins, Insurance Correspondent

US state securities regulators are lobbying for special terms for Lloyd's of London Names in America as part of the insurance market's out-of-court settlement offer to lossmaking and litigating members.

The regulators are putting pressure on Lloyd's in negotiations over legal actions alleging that investment in the insurance market was mis-sold.

Mr Philip Feigin, who is co-ordinating the securities regulators, said US Names were "a different class" and any deal with Lloyd's in the US should reflect the "additional legal protections that are not available in other parts of the world".

His comments highlight the difficulties Lloyd's continues to face in the US, despite growing support in the UK for the recovery plan of which the settlement offer, worth £3.1bn ($4.7bn) is part. Lloyd's fears that if assets held in the US are frozen, the recovery plan could be undermined. Without the plan's implemention on schedule this August, Lloyd's future would be in doubt.

LLOYD'S
LLOYD'S OF LONDON

However, Mr Feigin, Colorado securities commissioner, has hinted strongly that he would like to see outstanding legal action against the market, including by the securities regulators, resolved by August.

Securities regulators in 11 states have filed actions against Lloyd's, although one, in California, has been dismissed.

As part of a "standstill" deal, Lloyd's has agreed to give two weeks' notice of any moves to draw down on US Names' letters of credit. In the meantime, regulators have allowed Lloyd's to communicate with the 3,000 US Names about the recovery plan.

● The additional cost to Names of Equitas, Lloyd's rescue vehicle, has fallen by a further £100m or more, according to latest estimates. Figures in a letter to the market from Mr Ron Sandler, Lloyd's chief executive, suggests the Equitas "premium" has fallen from about £1bn to about £900m or less. Equitas is a giant reinsurance company that Lloyds plans to take over responsibility for billions of pounds of mainly US asbestos and pollution related liabilities.

EU members find ways around beef veto strategy

By Neil Buckley in Brussels

The UK will today resume its campaign of disruption of European Union business in protest over the beef exports ban, amid signs that other member states are increasingly finding ways of skirting around UK blocks and pressing on with important initiatives.

Mr Malcolm Rifkind, UK foreign secretary, will veto several decisions at a foreign ministers' meeting in Luxembourg today – but not an association agreement with Slovenia, which the UK pledged last week to support. Lord Inglewood, national heritage minister, will block four decisions at a culture ministers' meeting tomorrow. But Mr Tony Baldry, UK fisheries minister, will be unable to employ the blocking tactics at a fisheries council today, since decisions on fishing issues require qualified majority rather than unanimous votes.

Mr Rifkind will again set out the reasons for the UK disruption policy, and action the UK is taking to eradicate BSE, or mad cow disease. He is then expected to block measures including a mandate for negotiating an agreement between the EU and Algeria; EU funds for elections in former Yugoslavia, agreement on relations with Canada; and the mandate for a co-operation council meeting between the EU and Syria tomorrow.

The effect of the vetoes is likely to be limited, however. Although it will be the first such meeting to go ahead since the late 1980s without a common position adopted by the EU, officials said the meeting with Syria would proceed, with Italy, holder of the EU presidency, speaking on its own behalf, rather than in the name of the Union.

Similarly, officials said that while a release of Ecu3m ($3.72m) from the European Commission to support elections in former Yugoslavia might be blocked, member states would continue to contribute individually.

Work on a framework for progressive lifting of the ban will continue this week, through bilateral meetings between officials from the UK and other member states, and with the Commission.

The Commission will today attempt to rebuild confidence in EU beef among countries outside the Union. Mr Franz Fischler, agriculture minister, has invited 68 non-EU countries to an information seminar on BSE in Brussels, where he will tell them there is no case to restrict imports of EU beef, given the continued ban on exports from the UK.

Fishermen fight fleet capacity cuts

By Deborah Hargreaves

British fishermen are digging their heels in for a lengthy fight over the 40 per cent cut in fleet capacity proposed by Mrs Emma Bonino, European Union fisheries commissioner, last week, warning that it would devastate many coastal communities.

The plan to slash EU fleets over the next six years will be discussed today at a meeting of fisheries ministers in Luxembourg where Mr Tony Baldry, Britain's representative, will also oppose the plan.

British fishermen question the scientific basis for Mrs Bonino's conclusions about the need to make such drastic cuts in capacity. They point out that the age and efficiency of each nation's fleet has not been taken into account. "One tonne of Spanish capacity can catch more fish than 1 tonne of British capacity," he said. This is because the average age of British boats is 25 years whereas Spain has invested a lot of money in upgrading and improving the efficiency of its fleet in recent years.

Britain has failed to meet previous targets for reducing fishing capacity and Mrs Bonino has threatened the government with action in the European Court. The UK should have cut its fleet by 19 per cent since 1992, but has achieved only a 7 per cent decrease.

British fishermen blame foreign boat-owners – so-called quota hoppers – for their inability to meet capacity reduction targets. These, mainly Spanish and Dutch, fishermen buy up British licences to gain access to national fish quotas. They represent around 19 per cent of the UK's fishing capacity.

British Energy set to announce big dividends

By Patrick Harverson in London

Today's publication of the pathfinder prospectus for British Energy will reveal that the nuclear generator plans to pay just under £100m ($152m) in dividends this year, about double its expected profits.

The substantial dividend – which will be possible despite forecasts that first-year profits will be less than £50m because British Energy has strong cash flow – is a key element of the government's marketing strategy.

It is spending £4m on an advertising campaign to sell a privatisation that is regarded as the most complicated and troublesome the government has attempted because of the controversial nature of the nuclear energy business.

However, British Energy will warn potential investors in the prospectus that its intention to pursue a progressive dividend policy of increasing the payment in real terms every year could be abandoned if wholesale prices in the nation's electricity "pool" fall by more than 5 per cent.

Although the company believes pool prices are unlikely to fall that far, most analysts expect competition in the deregulated power generation market to drive electricity prices down from 2.4p a kilowatt hour to 2p/kWh over the next two years.

The announcement of the company's dividend today will allow analysts to put a reliable value on the business. With BZW and Cazenove, the company's stockbrokers, predicting that the shares will yield about 7.5 per cent in the first year, the group will be valued on its flotation at about £1.67bn.

When British Energy's debts are included, the total proceeds to the government from the sale will be well over £2bn. The company had debts of £700m at the end of its last financial year on March 31, but strong cash flows have since cut that figure by about a third. The business generates a lot of cash because of its low running costs, the fact that the company's plant is always running, and because the start of the latest financial year was colder than normal.

Satellite rugby deal stirs debate over rights

By Raymond Snoddy

British Sky Broadcasting, the satellite television venture, will announce today that it has won the right to broadcast all rugby union games played at Twickenham, the main stadium for English rugby, in a five-year deal worth £75m ($114m).

The deal – with the English Rugby Union – comes only three days after the satellite company clinched a new deal with the English soccer's Premier League worth £670m. It will give BSkyB a lockhold on English rugby, traditionally the province of the BBC.It is not yet clear how the four other rugby unions in the Five Nations Championship will respond.

At the very least BSkyB – in which Mr Rupert Murdoch's News Corporation has a 40 per cent stake – will have a powerful position in the European game. BSkyB has already bought up rugby union rights in the southern hemisphere.

The rugby deal, coming so soon after the Premier League deal is likely to increase the controversy about BSkyB's growing dominance in exclusive sports rights in the UK.

Meanwhile Mr Murdoch intends to consider the future of his 50 per cent stake in Vox, the German satellite channel following last week's falling out with Bertelsmann, and the "grand alliance" designed to launch digital television in Germany. News Corporation accepted a 50 per cent stake in Vox from Bertelsmann for £1 to try to turn round the heavily lossmaking channel. Canal Plus of France also came in as an investor.

The channel is now close to break-even. But News Corporation is angry at personal remarks made by Bertelsmann staff last week criticising Mr Murdoch's impatient style of doing business. The effective break up of the BSkyB, Canal Plus and Bertelsmann "grand alliance" last week clears the way for the Kirch Group to launch digital television first into the German market later this year.

UK NEWS DIGEST

Swedes plan to triple investment

Sandvik of Sweden, one of Europe's biggest engineering companies, is tripling its investment programme in Britain in a project that will mainly benefit its factories in the English Midlands and Yorkshire. The company is planning to spend about £38m ($57.8m) on plant and machinery in in its eight UK factories in the three years to the end of 1997. The programme aims to build on the commercial performance of Sandvik's plants over the past few years, according to Mr David Shail, managing director of the company's UK subsidiary. He said Britain's manufacturing role within the Sandvik group was "on an upward path and accelerating", built on factors such as increasing competitiveness of UK industry and "an enthusiasm by the workforce to embrace new technology".

Sandvik, with worldwide sales last year of £3bn, is among Europe's top 20 engineering companies ranked by revenues. It makes a range of special steels and other materials, together with finished tooling systems used in industries including automotive, aerospace and chemicals. *Peter Marsh, London*

Hospital projects under threat

More than £1bn of investment in new hospitals is in jeopardy because of continuing City concerns about the viability of the government's Private Finance Initiative.

At least four leading banks deeply involved with PFI have told the Treasury that uncertainty about the financial liabilities of National Health Service trusts remains too great for them to lend to hospital projects. Several large NHS contracts at an advanced state of tender negotiations are believed to be under threat.

Only last month Mr Stephen Dorrell, the health secretary, rushed emergency legislation through parliament in a bid to meet City concerns. Without PFI, there will be virtually no early investment in new hospitals. The latest difficulties for the PFI, the government's flagship policy for boosting the role of the private sector in public investment, may become a severe embarrassment to ministers.

Problems centre on the readiness of the government to meet the financial liabilities of health service trusts to PFI contractors if a trust defaults. The latest controversy goes to the heart of the government's reforms of the health service, which to promote an internal market within the NHS gave nearly 500 local trusts an arm's length financial relationship with the government. *Andrew Adonis, Public Policy Editor*

Social security opt-out suggested

People should be allowed to opt out of the National Insurance system, the state social security scheme, and make contributions directly to a personal "fortune account" which would pay out pensions and other benefits when needed, according to a study published today by the Adam Smith Institute. The rightwing think-tank says that the government's unfunded liabilities on health and pensions alone currently amount to more than £2,000bn ($3,080bn) and the existing system is unsustainable.

It says that the fortune account would be independently managed by competing financial institutions and would provide for fully funded personal pensions as well as providing a package of basic insurance to replace other benefits such as unemployment and disability payments.

According to Dr Madsen Pirie, Institute president, transfer costs could be handled by giving people "recognition bonds" for previous contributions to the state system, payable when they retire. "What all politicians are seeking is a simple and funded system with positive benefits, inexpensive to run, giving greater benefits at lower cost," he said. "I believe the Fortune Account is that package." *Mark Suzman, London*

THIS WEEK

Japan sorts out its tatemae and honne

DATELINE

Tokyo: A new intelligence HQ is part of a campaign to improve the country's information gathering, writes William Dawkins

Technically speaking, spying is banned in Japan, whose pacifist constitution outlaws violations of the "secrecy of communication".

Yet in intelligence matters as in Japanese life in general, there is more than one layer of reality. This can explained by the difference between *tatemae* – roughly speaking, the public version of events – and *honne* – home truth.

The contrast between *tatemae* and *honne* was thrown into relief recently when parliament approved the creation of the first unified military intelligence headquarters since the war. The HQ will open on the central Tokyo site of the former Imperial Army HQ early next year and will keep watch for potential flashpoints in "surrounding regions". It will also supply intelligence on world hot-spots where Japanese troops carry out United Nations peace-keeping duties, where the country has hitherto relied on US information, says a senior defence official.

The HQ will also be well staffed, initially bringing together 1,600 officers who work in five bureaux of the defence agency, rising to 2,000 staff in the next few years.

The foreign ministry, which had reservations about the HQ when first suggested by the defence agency seven years ago – on the grounds that it might show the wrong *tatemae* to the rest of Asia – was quick to dismiss any suggestion that the agency would carry out spying.

Yet whatever the *honne*, Japan's new intelligence HQ is the latest step in what was an invisible campaign of self-improvement by the half dozen government agencies responsible for gathering information on matters from technology to terrorism.

The HQ's main sources of information will be six existing electronic listening posts, from Hokkaido in the north, listening in to Russia and northern China, to Okinawa in the south, tuned in to east Asia. But the agency will have more clout than its predecessors when it comes to trading intelligence with friendly countries.

The plan for an agency started out as a controversial idea that got passed round unenthusiastic Japanese government departments for years, neither progressing nor expiring. And the foreign ministry was not the only one to lack enthusiasm. The National Police Agency, top of the pile in Japan's faction-ridden intelligence community, argued that such things should be civil business.

So how did the defence people win the day? Recent events on Japan's doorstep exposed potentially dangerous weaknesses in its intelligence gathering systems, stemming from its former shyness about employing competent lookouts. When former North Korean leader Kim Il-sung died two years ago, for example, the Japanese prime minister's office was alarmed to find that it took weeks to cajole the various intelligence bodies concerned into preparing a co-ordinated brief on the likely consequences.

Worse, in the same year, Japan's electronic watchers failed at the one thing they were supposed to be good at: early warning. They had to be told by Greenpeace about Russian trawlers dumping nuclear waste in the Sea of Japan, and heard from the US about the testing of a North Korean missile.

While good, but not infallible, at collecting detail, Japan's intelligence services were shown to be slow to react and bad at delivering snap analyses of international crises. "They have no shortage of talent and intellect, but they just can't pull it together," says one western expert.

The cabinet information research office, which collects information from other agencies and advises the prime minister, was upgraded one rank in the bureaucratic hierarchy soon after the Kim Il-sung shock, to strengthen its position in ministerial turf battles.

Separately, the foreign ministry has increased its focus on intelligence analysis, rather than information gathering, and is seeking to expand the bureau. Its officials admit that they gather information abroad in a manner that some might consider covert.

Makoto Ito, a director in the foreign ministry's intelligence and analysis bureau, confirms that some Japanese embassies pay non-embassy locals for hard-to-obtain information. "If they have difficulties in that sense, they may need some money," he says. All legal, he emphasises.

National Police Agency staff, formally employed for embassy security, also occasionally undertake foreign intelligence gathering, he adds. You can spot them in embassies' political sections.

Outside the foreign ministry, the justice ministry has an intelligence agency which mainly works in Japan tracking down political and religious extremists. But it also runs a small number of agents abroad, keeping an eye on potentially dangerous Japanese nationals, such as members of the Red Army faction, a terrorist organisation. One of its members was picked up in Peru only last week.

For technology and economic information gathering there is the ministry of international trade and industry and its trade arm. Their work is naturally legitimate – mainly reading trade journals and prowling cyberspace – though not immune from controversy. Only three months ago, Arlen Specter, chairman of the US senate intelligence committee, publicly accused Japan, among others, of "economic espionage".

The allegation raised an ironic laugh among Miti officials who remember US press accusations that the CIA had bugged Miti telephones during last year's automotive trade dispute. It only reinforces the point that less-than-official information gathering, or whatever the *honne* is, is part of any serious country's armoury. But at the level of *tatemae*, discretion rules.

PEOPLE

Eurotunnel and the artful persuader

Patrick Ponsolle's conciliatory style is *just what is needed, reports* **Geoff Dyer**

Employees at Eurotunnel, the Anglo-French Channel tunnel operator, have noticed that Sir Alastair Morton, the group's co-chairman, has been unusually relaxed in recent months. This is in spite of a commitment to delay his retirement until the group has agreed a refinancing with its 225 banks and its truculent shareholders, which could take until the end of the year.

The reason for Morton's demob-happy manner became apparent last week, when Eurotunnel revealed that Sir Alastair has already handed over a large part of his responsibilities to the French co-chairman, Patrick Ponsolle. Ponsolle, who has been in the job for the past two years, has assumed control of the general executive committee – responsible for operations and strategy.

When Sir Alastair does step down, Ponsolle will take the title of executive co-chairman, while the new British co-chairman will be part-time. Translation: Ponsolle, 52, will be very much in charge.

Ponsolle is in many ways the complete antithesis of Sir Alastair. While Morton has relished his domineering and bullying approach to the group's banks and contractors, Ponsolle is more emollient.

And while South African-born Morton has presented himself as an outsider banging on the doors of the British establishment, Ponsolle is, in French terms at least, the insider's insider. After graduating from the Ecole Nationale d'Administration, France's near obligatory training ground for top civil servants and industrialists, Ponsolle moved on to the fast track at the French economics ministry.

A stint as the finance attaché in the Washington embassy was followed by promotion to deputy chief of staff to Laurent Fabius, the then socialist budget minister, later prime minister. In 1983 Ponsolle joined Compagnie de Suez, one of France's largest industrial and financial holding companies, where he rose to be chief executive. His departure from Suez in 1993 had been expected after he was overlooked for the chairmanship in favour of Gerard Worms in 1990.

With such a track record it is not surprising that one French banker refers to the chain-smoking Ponsolle as "the quintessential product of the French financial establishment". Ponsolle's accession to the top role also signals a shift in the balance of power on the Eurotunnel board towards the French side. While Ponsolle will be in charge of strategy, the day-to-day operations are the responsibility of Georges Christian Chazot, the French chief executive.

Meanwhile, in addition to Sir Alastair, Graham Corbett, finance director, is retiring at the end of this month, which will deprive Eurotunnel of the two British driving forces behind its development. This tilt towards France among the group's senior management is a natural development, given that more than 70 per cent of Eurotunnel's shareholders are French.

The challenges confronting Ponsolle are clear. In effect, he is running two different operations. There is Eurotunnel the financial basket case, unable to meet its £2m-a-day

Ponsolle will be very much in charge when Sir Alastair Morton steps down

interest bill and mired in negotiations with its unwieldy group of banks over a refinancing. Ponsolle has been raising hopes in recent weeks by predicting that an outline deal might be reached with the banks before the group's annual meeting on June 27. Eurotunnel shares have subsequently risen from 64p in early April to 97p three days ago. However, the movement has surprised analysts, given that any settlement would almost certainly lead to a substantial dilution of shareholders' interests.

Ponsolle is also in charge of Eurotunnel the transport company, which is growing in confidence and is beginning to dominate the market for cars and freight crossing the channel. Last month, Eurotunnel moved on to the offensive in the cross-channel price war by slashing its summer fares.

Analysts interpreted the move as an attempt to grab as high a market share as possible on the Dover-Calais route before there is a rationalisation of the ferry operators. P&O European Ferries, the largest company on the route, has already asked the UK government to release it from undertakings which prevent it from discussing mergers with its competitors.

Ponsolle's conciliatory style is probably more suited to Eurotunnel's present phase of development. Few deny that Sir Alastair's bluster and aggression were vital in getting the tunnel built, and that his abrasiveness was crucial in securing the group's two previous refinancings. But no amount of shouting and raging can compel families to use the tunnel en route to their summer holidays. What they need is artful persuasion.

NAMES IN THE NEWS

De La Rue chief holds firm as the City ponders

Jeremy Marshall, chief executive of De La Rue, describes the disappointing results announced last week as a mere "pause" in the banknote and specialist paper group's upwards earnings growth, writes Christopher Price in London.

Some investors think otherwise, and have been voting with their feet ever since the company warned that first-half profits would be less than last year and it would be spending £21m rationalising one of its problem divisions. It was De La Rue's third profits warning in just over a year, and the shares fell nearly 15 per cent in the four days following the results announcement.

Marshall, 58, is unruffled by the affair. "The pressure does not get to me because I have absolute confidence we will come through this. We have a very strong product portfolio," he says.

He blames De La Rue's problems on "events conspiring against us", with the banknote business particularly badly hit by a surfeit of suppliers and a fall in demand. However, he is also keen to point to the rapid earnings growth at the company since his arrival in 1989, which almost quadrupled up to 1995. "We've had six very successful years and built up a very strong business which I feel sure will come through this negative period."

Marshall cut his teeth at Hanson, where he rose to become divisional chief executive of the UK engine division. He then spent two years in the same position at the British Airways Authority, which he guided towards privatisation.

He describes his management style as consensual: "I listen to my peers carefully before acting." But he points to last week's restructuring decision as evidence of his willingness to take tough decisions when necessary.

Marshall's relaxed delivery and consensual management style have led some analysts to criticise him for aloofness. There is also concern over the timing of the rationalisation of the cash payment systems division. "The problems have been developing there for some time now, and we would have preferred to have seen the management move quicker," was the view of one disgruntled analyst.

If he gets irritated by City impatience, Marshall takes it out on the squash court and occasionally he plays tennis.

Meanwhile, he is touring the City soothing any nerves among the company's large institutional investors. "The strategy we are putting forward is a convincing one," he maintains.

'Rotten eggs' still a problem for Sommer

Ron Sommer, who is trying to steer Deutsche Telekom through Germany's biggest ever privatisation in November, has managed a thing or two since he took over at the country's least loved company in May last year, writes Michael Lindemann in Bonn. He has pushed through a grand alliance with France Télécom and Sprint, the US long-distance carrier, creating the world's third global telecoms operator.

Sommer also seems to have made some headway in persuading the company's 210,000 employees – half of them civil servants – that the only way Deutsche Telekom can survive at a time of growing competition is if it focuses on its customers, a notion which has until recently completely eluded Germany's telecoms monopoly.

One particularly thorny problem remains, however. Deutsche Telekom's workforce is nervous about privatisation and has been apt to leak all sorts of sensitive information about the company in recent months. The very rosy results which Sommer unveiled last Tuesday were available, for instance, in *Capital*, a German business magazine, two weeks earlier. The company admits it has lots of "rotten eggs" who are apt to speak out of turn.

The problem is of particular concern to Sommer, though, because the Securities and Exchange Commission, the New York stock exchange watchdog, is scrutinising the company carefully to see that it meets the conditions for a listing on the NYSE. Clearly, Sommer still has his work cut out when it comes to controlling Deutsche Telekom's information flow.

Frater takes to the road to sell Cofinec

Stephen Frater is on the road this week, doing one of the things he does best: talking about Cofinec, the central European packaging group he built from scratch into one of the region's first home-grown multinational companies, writes Virginia Marsh in Budapest. Over the past seven years, the smooth talking, perpetually sun-tanned Frater has persuaded just about every important institutional investor active in central Europe to invest in the company he leads.

Now, the well-connected 42-year-old former Wall Street investment banker is taking Cofinec public and is touring Europe and the US with a roadshow aimed at selling some 60 per cent of the company.

Born to Hungarian parents who emigrated to the US after the Soviet invasion in 1956, Frater was invited by George Soros to visit Budapest in 1989 to advise the US government on the role it could play in supporting the country's transition to a market economy. After hearing that Carlo De Benedetti was interested in investing in the region, he arranged a meeting through a mutual acquaintance and promptly persuaded the Italian industrialist to give him the seed capital to set up Cofinec.

In those days, Frater worked out of rooms in the Gellert, Budapest's elegant turn-of-the-century hotel. Now based in Kitzbühel, the Austrian ski resort, with his office in Vienna, Frater oversees a group with annual turnover of $135m (£89m) and plants in Hungary, Poland and the Czech Republic.

Peter Norman · Economics Notebook

Shadow economy could help Emu fly

Revaluation of GDP to incorporate informal economies is gaining credence

Emu is a subject that just will not lie down. Although the examination to determine which countries can be founder members of the European economic and monetary union are more than 18 months away, there is acute concern that neither Germany nor France will qualify.

This is not surprising in Germany's case. Last week's news of a 0.5 per cent drop in real first quarter gross domestic product underlined the challenge Germany faces in meeting the Maastricht Treaty's debt and deficit criteria.

There are as yet no reliable signs of recovery. Worse, while the government struggles to turn its planned supply side measures and spending cuts into action, businesses are voting with their wallets and investing abroad. Germany's productive base is being hollowed out much as was Britain's in the early 1980s.

True, Theo Waigel, Germany's embattled finance minister, can draw some comfort from a recognition among voters of the need to rectify Germany's economic weaknesses. Despite noisy trades union protests, which are due to culminate in a massive anti-government rally in Bonn next Saturday, recent opinion polls indicate that 70 to 80 per cent of people favour some government action to put things right.

But he needs all the help he can get to overcome the hurdle of the Maastricht criteria in 1997, the year which will provide the data for the decision early in 1998 on entry to Emu.

The accompanying table, which draws on internal finance ministry forecasts prepared for a meeting on budgets and deficits with states and local authority officials this week, gives an idea of the problem.

The good news is that Germany's government deficit, as defined by the Maastricht Treaty, should be under the all important 3 per cent of GDP next year and in the following years. But the government debt ratio looks set to break through the upper limit of 60 per cent of GDP this year and rise to 61.5 per cent in 1997, where it will stay for the two following years.

This is a potentially serious embarrassment for the German government and in particular for Waigel. He has insisted that the Maastricht criteria should be strictly interpreted if Emu is to go ahead as planned in 1999. He was singing this song again last Monday when he protested at the European Commission's judgment that Denmark could already be regarded as meeting the criteria in spite of a debt ratio of 73 per cent.

Denmark escaped the rigours of the 60 per cent criterion because its debt ratio has been coming down sharply in recent years. Germany's debt ratio, by contrast, is rising.

This is bad news because the treaty only allows exceptions to the 60 per cent rule where the ratio of government debt to GDP "is sufficiently diminishing and approaching the reference value at a satisfactory pace". If the finance ministry's latest forecasts prove correct and Bonn continues to insist on a strict interpretation of the treaty, Germany would be unable to be a founder member of Emu.

We have to take Waigel at his word when he says it is no part of his agenda to scupper Emu by sticking so fiercely to the criteria. The ministry view, backed by the Bundesbank, is that Europe's future single currency will only be credible if investors are convinced that the Emu area will be one of monetary stability, underpinned by strict interpretation of the treaty.

German deficits and Maastricht criteria (DMbn)

	1995	1996	1997	1998	1999	2000
Total Public Spending	1,195	1,201	1,199	1,228	1,257	1,288
Total Revenues	1,085	1,084	1,098	1,130	1,172	1,222
Total Public Deficit	110	117	101	98	85	66
Maastricht Criteria (% of GDP)						
Government deficit	3.5	3.5	2.5	2.0	2.0	1.5
Total government debt	58.1	60.5	61.5	61.5	61.5	60.5

Source: Finance Ministry, Bonn - unpublished working paper

But if the criteria stay inflexible, something else must move. More growth in Germany would help: the finance ministry rule of thumb is that every 1 per cent extra increase in GDP reduces the debt to GDP ratio by about 1 percentage point.

Another option would be to change the timetable. But delay to Emu would be fraught with political risk, perhaps marking the beginning of the end of the project. Delay would be a huge setback for Chancellor Helmut Kohl and other EU leaders who have invested so much in Emu.

A third approach would be to "revalue" the GDP of the EU member states by taking account of the substantial volume of activity in their informal or semi-legal shadow economies.

I have to confess that when I have mentioned this idea to German officials in recent weeks the reactions have generally ranged from mirth to derision. The only person to give it any credence had moved recently to Bonn and been faced with the problem of finding a painter to decorate his new home. Painters there were in abundance and all were willing to do the job straight away. But they all set the same condition: payment in cash to avoid Germany's crippling tax and social charges. As a good honest official, my acquaintance insisted that the work should be done with a proper invoice. He has found a painter but must wait seven months for him to find the time to do the job.

Clearly any revaluation of GDP to incorporate the informal economy would reek of manipulation. But the foregoing anecdote shows that the informal economy is pervasive in Germany: it probably amounts to about 10 per cent of GDP. The government's controversial measures to boost growth and employment recognise the shadow economy's existence by proposing tax relief for householders who are prepared to provide legitimate employment for domestic labour. Moreover, as reported in this column recently, Germany's statistics are in such a shambles that a GDP figure incorporating a guesstimate of informal activity is just as likely to be accurate as the official figures.

There is already a precedent for incorporating an estimate of the shadow economy in GDP. Italy revised the size of its economy upwards by 17 per cent in this way in the 1980s in an exercise approved by the Organisation for Economic Co-operation and Development. The idea is gaining ground. As my colleague Gillian Tett disclosed last month, Eurostat, the Commission's statistical service, is preparing revised statistics to take account of the problem and has estimated that the Belgian, Greek and Portuguese economies are about 20 per cent bigger than current figures suggest.

All Germany needs is the political will to revalue its GDP. Clearly, such a step would be very difficult for Waigel. But he has often been rumoured as a candidate for the Bonn foreign office. A cabinet reshuffle putting Waigel in charge of German foreign policy could be presented as a fitting reward for a man who has held down a punishing job for more than seven years and who only a few days ago was to be seen happily hob-nobbing in the Kremlin with President Boris Yeltsin. It could also make Emu's planned take off in 1999 rather more likely.

MANAGEMENT

The seedbed of job creation

In the second of two articles, Linda Bilmes looks at the solutions companies adopt to create employment and fresh opportunities

Last week's article on the management page looked at the tactics that different companies have used to create or preserve jobs. This week's focuses on companies whose long-term approach to their business leads directly to a high rate of job creation.

It is well-known that small companies are the main source of new employment opportunities. Both in Europe and the US, start-up companies create more jobs than are lost to the economy through redundancies. More than half the total working population is employed by small- or medium-sized businesses.

Some successful small companies grow into large companies that continue to produce new vacancies. One of the ways they do so is by replicating the conditions that enable small businesses to thrive.

Clearly, it is easier to create jobs in expanding industries, such as technology and services. However, even within these fast-growing sectors, some companies stand out as innovators, creating many new, high-paying jobs. Take Thermo-Electron, the Massachusetts-based technology company, whose earnings per share have grown at 97 per cent annually for the past 10 years – the highest rate in the Fortune 500.

Founded by George Hatsopoulos, an MIT-trained scientist, to "identify emerging societal problems and develop technological solutions". Thermo-Electron has expanded into a "family" of 15 technology companies, with products ranging from explosives detectors to low-emission bus engines. Its workforce has grown from 5,700 in 1991 to almost 17,000 today.

According to John Hatsopoulos, the company's chief financial officer, the key to its success is its "spin-out" strategy. A "spin-out" is not a spin-off. Thermo spins out its best, fastest-growing, core technologies – not its underperformers. A division must show potential for 30 per cent annual growth in order to qualify for being spun-out. The company then offers new stock to the public while retaining a majority interest. The proceeds of the share offering go to provide capital for the new company.

Since 1993, Thermo has spun out 12 companies, every one of which has appreciated in price since going public. The company expects to launch another five "baby Thermos" during 1996. Moreover, the largest Thermo spin-outs are beginning to produce offspring of their own.

The spin-outs have proved an ingenious means of providing extra financing for research and development. They also prevent the top performers from leaving. "We have created the most loyal employee base in the world," says John Hatsopoulos. "We like to brag that we have never lost a single employee to a competitor or to set up a new company. Everybody sees himself as being in a race to invent new technologies and to run his own company."

New ideas are well rewarded. "There's no better way to stimulate creativity," he says, "than to see a guy next to you get $500,000 (£333,000) in options for a great idea."

The Thermo spin-outs combine the advantages of small start-up ventures with the support of a strong parent. Thermo provides most of the administrative, legal and financial infrastructure for the 15 affiliated companies. Some have criticised the system of spin-outs for producing a higher than necessary headcount, but Hatsopoulos believes that "without this strategy, our growth would have been a fraction of what it is".

Another company that has tried to emulate the fast growth and high rewards approach of the best small businesses is Bertelsmann, the German media conglomerate which is 90 per cent owned by the Reinhard Mohn family and foundation who "strive to create an environment that emphasises and promotes individual initiative". With sales of more than $14bn, Bertelsmann has increased its workforce from 44,000 to 58,000 during the past four years. Its strategy is to motivate employees by turning their divisions into independent profit centres, in which managers invest personal capital.

Before 1992, the group experimented with this formula in selected pilot areas. It proved so successful that the scheme was extended throughout the 300 divisions. Managers can invest between DM25,000 (£10,600) and DM2m, with the average contribution about DM200,000. In recent years the managers have earned an annual return of between 20 per cent and 30 per cent on these investments. In addition, Bertelsmann employs incentives, including profit-sharing and performance-linked bonuses, for lower-level employees.

The conglomerate is highly decentralised and seeks to foster a "small-company feel" in each profit centre. Some believe the system leads to duplication and requires more employees than a traditional organisation, but it is part of a successful plan to encourage the innovator and the entrepreneur.

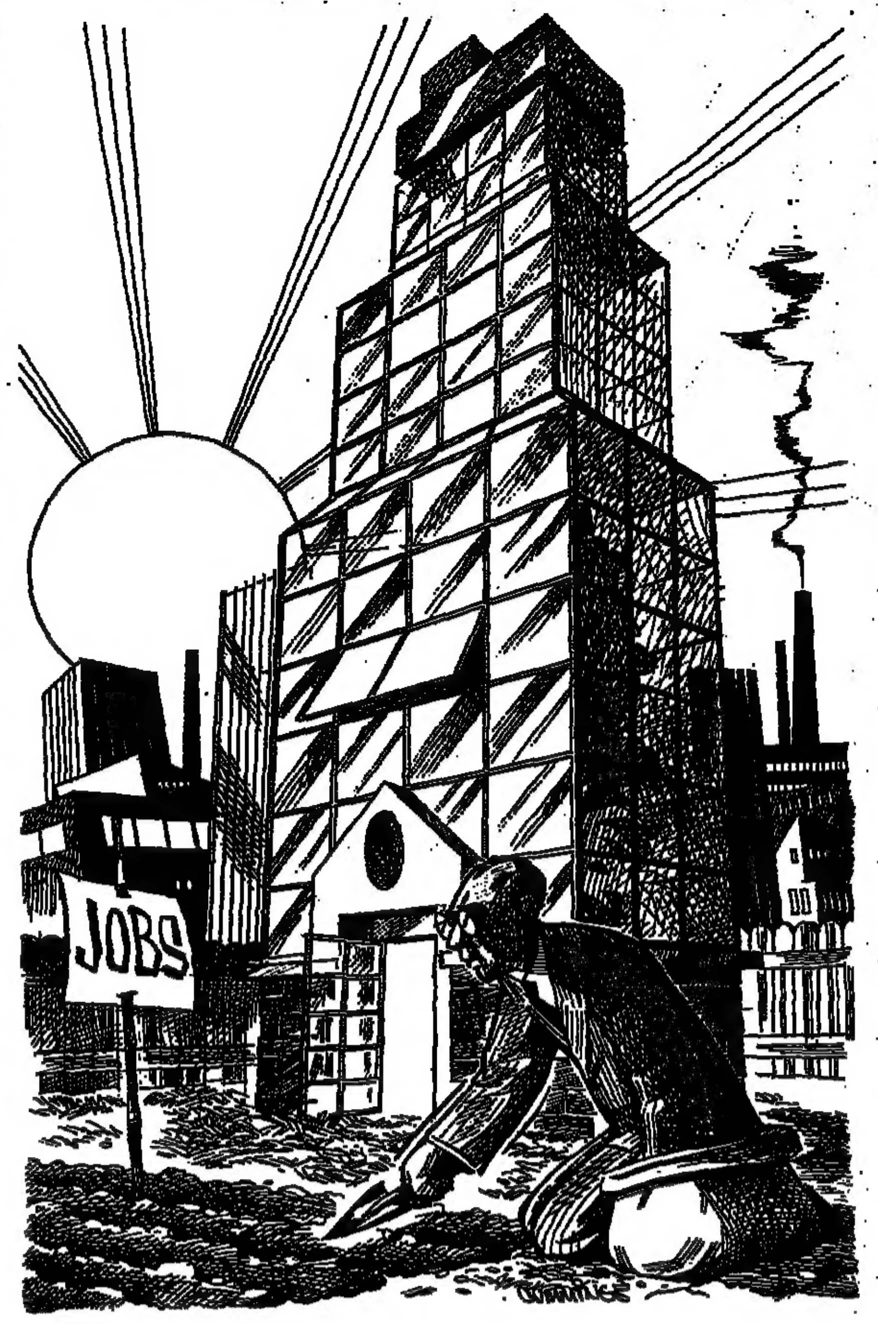
A company that does it all – avoids job cuts in the short term and also creates new jobs at an impressive rate – is Hewlett-Packard. While many other computer companies have cut jobs, the company, based in Palo Alto, California, has grown from 83,000 to 99,000 employees in the past decade, with revenue per employee growing even faster. Its success, sustained over four decades, cannot be attributed to any single factor. But once again, it is a business that has tried, despite its size, to mimic the dynamism, informality and entrepreneurial spirit of a small company.

Some of the company's innovations such as "management by wandering around" are well known. But in addition, HP pioneered some of the most progressive employment changes of the era, including flex-time, telecommuting, job-shares, independent business units, company-wide stock options, and linking managers' pay to their rate of new product designs.

It believes that its organisational structure, decentralisation and focus on the individual lead directly to higher rates of innovation – a critical factor in the company's success. To do this means having an ample padding of employees to handle the day-to-day projects, leaving others free to tackle special ones. For example, John Young, former chief executive officer, tells the story of how, in the mid-1980s, HP's leadership in spectrum analysers was being threatened. Many companies in this situation would have withdrawn from the market, outsourced manufacturing, or attempted to improve the existing product. But HP took a more radical line. It formed a team with every corporate function and its suppliers to work full-time on developing a new product. "The result," says Young, "was a product which quickly captured 75 per cent market share."

HP offers employees an almost Japanese-style guarantee of employment. To keep expenses down without job cuts, the company works relentlessly to cut non-labour costs by managing its supply chain, receivables and inventory. HP takes pride in the fact it has never cut the job of a worker.

No discussion of long-term employment growth would be complete without looking at California, the world's seventh-largest economy and its foremost laboratory for creating jobs of the 21st century. During the next decade employment is forecast to grow at double the rate of the US as a whole. Moreover, the state has already recovered from vast job losses in the defence industry which followed the ending of the Cold war.



Most of this growth comes from small companies. The medical technology sector alone is adding workers at an annual rate of 9 per cent, two-thirds of whom are employed by companies with fewer than 50 people. California also has the lion's share of America's fast-growing companies in multimedia, software, biotechnology and telecommunications. These companies take deliberate steps to preserve their small-company character as they grow.

One example is Chiron Corporation, a biomedical company that has grown from 600 to nearly 7,000 employees in the past four years. Rajen Dalal, vice-president for corporate planning and business development, attributes the company's growth to two factors. The first is excellent science: Chiron discovered hepatitis C and now manufactures the only diagnostic blood test for the virus. Second, Chiron engages in "creative partnerships" – "trust-based, 50-50 joint ventures, run by mutual agreement and consensus", with a number of larger pharmaceutical companies, including Johnson & Johnson, Ciba-Geigy, and Searle. "We are among the most prolific partnership companies anywhere," says Dalal. "This has enabled us to reduce our scientific and clinical risk, and to increase our capabilities in research, development and marketing." Chiron's approach contrasts sharply with industry standard-bearers such as Amgen and Genentech, who insist upon 100 per cent control. It is striving to preserve a "small-company feel" in spite of its internal growth and numerous acquisitions. "Size brings with it certain kinds of structure," says Dalal. "But we try to balance the need for structure and planning with a certain amount of ambiguity and chaos, so we don't lose the ferment of ideas, the flexibility to change direction at short notice."

To encourage innovation Chiron has taken the radical step of making basic research separate from its commercial activities. "We have created a biotech company within a biotech company," Dalal says. "It has its own profit and loss and does deals to raise money."

Another California company, Silicon Graphics Inc (the firm that made the dinosaur scenes in *Jurassic Park*), has been growing at some 40 per cent annually since 1990, and hiring rapidly to keep pace. Last year the company announced that, in order to achieve 50 per cent growth in sales, it would double its workforce of 3,000. In addition, it acquired Cray Supercomputers, along with its 4,000 employees.

SGI needs more people to succeed in the company's core strategy: to keep expanding the product line rapidly and to make everything backward-compatible. "This policy," according to one senior manager, "is a difficult and labour-intensive process." SGI remains flexible by constantly reorganising. There is an "unwritten rule" to reorganise the whole company every year.

According to a study by Joel Kotkin of the Center for the New West, what sets Californian companies apart is the "network economy". Successful companies nurture hundreds of smaller businesses, suppliers and contractors – many of which go on to become substantial enterprises. They do so through "regional networks" that rely on partnerships in the private sector.

Networking can take the form of joint projects (often without a formal joint venture), short-term collaborations and cross-financing. On the other hand, it can be simple measures such as the loan of office facilities and technical equipment to start-ups during off-peak hours. In entertainment, this network "helps entrepreneurs move their firms to expand beyond film and television into music, advertising, theme parks and multimedia", says Kotkin.

Rod-L Electronics is one of the thousands of companies that have prospered through Silicon Valley's informal network. Founded in 1977 by former HP manager Roy Clay Sr, the company manufactures electrical safety equipment. "William Hewlett and David Packard pioneered the local tradition of entrepreneurs helping themselves by helping each other," says Clay. "So when I wanted to become an entrepreneur, HP signed on as my first customer."

The company examples cited in this and last week's articles underline the central role of the private sector in job creation. But more specifically, they show the imaginative solutions that many businesses use to preserve and create jobs.

It may be time for governments to rethink their approach to the unemployment problem and in particular to consider whether more resources should be directed towards harnessing the energies of the private sector.

A recent study by the Organisation for Economic Co-operation and Development underscores that point. In nine member countries, the most successful unemployment programmes were those that helped jobless workers to set up their own businesses. The study found, on average, a survival rate of more than 50 per cent for such businesses after three to five years. Even people whose businesses failed found new jobs more frequently than non-participants.

The author is a manager at the Boston Consulting Group.

DEALING WITH DISABILITY

Deafness

The busy production floor of a car manufacturer, packed with heavy industrial machinery, hardly seems the ideal location for profoundly deaf workers.

Yet earlier this month Vauxhall Motors, the UK subsidiary of General Motors, recruited two unemployed men with severe hearing difficulties to work on the assembly line at its Luton plant. The company, with the assistance of the Royal National Institute for the Deaf, has adapted the way it communicates with the men to meet their needs and the safety requirements of the factory.

According to the RNID, Vauxhall is one of the better employers in the UK in its dealings with the deaf. More than 2m of the working population have some degree of hearing loss, with an estimated 84,000 suffering severe or profound deafness.

The government's Labour Force Survey suggests deaf people are twice as likely to be unemployed as people in general, and that those in work are about 50 per cent more likely to be in manual jobs.

"Communication is something we all take for granted and employers may be reluctant to employ people with whom they cannot communicate easily," says the RNID. "But there are relatively inexpensive measures that can be taken to facilitate communication with the deaf.

"These range from installing a text telephone, a loop system for people who wear hearing aids or supplying the relevant interpreter for meetings. But every individual has different needs. There is no point, for example, in installing a loop system if the individual does not wear a hearing aid."

Deafness, as the RNID highlighted in a recent campaign, does not equate with lack of ability. Vauxhall recruited its two new workers on merit. "The two men met all the standards and were treated exactly the same as everybody else in the interviewing process, except that they used an interpreter, provided by the local Jobcentre," says Gill Parsons, Vauxhall's head of training at Luton.

Vauxhall's awareness of what can be done to assist deaf individuals has increased its involvement in the RNID's Louder Than Words campaign.

This seeks to highlight the ways organisations can adapt their methods of communication to make information accessible to people who are hard of hearing. Initially Vauxhall looked at the scheme because it wanted to improve its communication with deaf customers.

At present about £19m of government funds are available every year to help people with disability gain access to the workplace. In the case of its two new recruits, Vauxhall was given funds to equip them with instruments, strapped to their hips, which vibrate when forklift trucks are in their vicinity and when fire alarms ring.

Although both men lip-read, interpreters are being provided by the local Jobcentre to assist during their training. The men's supervisor and team leaders are being taught to deal with issues that may arise because of the men's deafness.

Parsons says: "The key is to create a sympathetic environment. Safety is paramount at Vauxhall and these two are no exception. But we have worked with these two men to meet their specific requirements."

Lisa Wood

Open season in the political office

Lucy Kellaway

It is easy to turn a company around. So says Stuart Wallis who was last week appointed to do just that to Scholl, the company that makes funny wooden sandals and corn plasters. Writing in the May issue of *The Director*, he gives a step-by-step account of how it can be done. You meet the people, you pick your dream team, promote quality and keep an eye on the cash balance. It all sounds perfectly sensible (if a little obvious) save one bit. You should abhor politics, he says.

But surely all organisations are political. Any group of people in any company will be governed by politics. And all good managers must be good at politics: that is, at dealing with people, motivating them, organising them, hiring them and firing them.

"Politics means loving people – getting a kick out of being around folks at the front line and enjoying the fray itself," said the great management guru Tom Peters. I wouldn't have expressed it in quite those words myself, but I agree with the sentiment.

Office politics has a bad name: it has become axiomatic to say that office politics are to be avoided. But when most people talk about politics at work, what they mean is backstabbing and gossiping. Some organisations have more of this sort of thing than others; in some companies, politics is practised to the exclusion everything else. The complaint made by BBC staff (in the days when it had any) always used to be that they spent 90 per cent of their time and energy on office politics and 10 per cent on making programmes.

According to Wallis, the solution is to make all communication open – thus eliminating politics and making rumours wither on the grapevine.

I doubt very much whether it is possible or desirable to have a truly open organisation. The sort of things that people gossip and backstab about (who's going up, who's going down) will never be fully transparent. A company cannot and should not deliberate aloud about who is to going be promoted and who is going to be fired. And human nature being what it is, there are bound to be rumours, some of them nasty. But the correct response from senior management is not to seek to eliminate the gossip (which is impossible), but not to take any notice.

This does not mean that organisations should be content to persist in their more secretive and paranoid ways. A case in point was last week's leaked internal report from the Treasury admitting that it is arrogant, imperious and won't listen. While this revelation does not add one iota to the sum of human knowledge, it was damaging because it made the Treasury look as if it had much to hide and also made it seem bungling in allowing a leak to get out. Had it conducted the exercise in public, the outside world might have been more inclined to applaud the Treasury for its courage than to revel in its discomfort.

Until last week, I had never thought that the word "fat" as in "fat cat" was meant to be taken literally. But last week, I read about an image consultant who advises CEOs to spend some of their earnings in joining a gym. If you stay fit and trim, he tells them, the fat-cat label is less likely to stick. This is further depressing evidence of fatism. Possibly Tim Holley of Camelot does not deserve a £120,000 bonus. But the size of his double chin, showed to advantage in a front page picture in The Independent last week, has absolutely nothing to do with it one way or another.

It is not just the media that gets excited about executive pay. Resentment is greater still among the middle-ranking managers who feel that they do just as much as their seniors to contribute to the success of a company, but do not get the recognition nor the pay to reflect it.

Perhaps these embittered souls should consider transferring to the banking sector where last week there was a most unusual reversal – a chairman bemoaning the extortionate pay of his underlings. Admittedly investment banking is a very peculiar business, and what Mr Buxton of Barclays was mainly complaining about was that rival banks with deeper pockets were poaching whole teams and bidding up salaries.

But even without the phenomenon of team poaching, the level of investment banking salaries does seem more than a touch on the high side.

Surely it cannot be *that* difficult to be a good investment banker. The life is pleasant (if you like that sort of thing), and the work scarcely rocket science. You would have thought that there was a vast supply of willing, adequately qualified people who could with bid salaries down. In the City above all, one would have expected the free market to be rampant, but it seems not to be working at all.

Large corporations are losing their attraction for MBA graduates, says **Tony Jackson**

Downing a bitter potion

As the downsizing wave in America continues, big corporations sometimes give the appearance of turning their backs on the workforce. One small but important group of workers seems to be returning the compliment: the MBA graduates from America's business schools.

In 1990, 59 per cent of the MBA (master of business administration) class at Stanford went to work for companies with more than 5,000 employees. By 1995, the figure had dropped to 32 per cent. The number going to companies with less than 50 employees went up from 11 per cent to 14 per cent.

Alan Merten, dean of Cornell's business school, says: "The theory used to be that working for a small company gave you high risk and a high return, while you got low risk and low return at a big company. Now big companies are risky as well."

Samuel Culbert, professor at the Anderson business school at UCLA in Los Angeles, puts it more starkly. "Our MBA students have seen their parents' [employment] history, the betrayals and the broken promises. They're so afraid of the organisation that they devote enormous creativity to developing scenarios for entrepreneurship."

At Cornell, Merten says, the most popular optional class in the MBA course is that on entrepreneurship. Partly, this is because studying the small company gives a better grasp of how the whole business works. But there are also students who want to work for small companies on principle.

"Frankly, it's scaring the big companies," he says. "They're having to become much more aggressive on campus in their recruiting."

There is another aspect to the phenomenon: the sharp rise in MBA recruitment by management consultancies, which – the likes of Andersen and McKinsey apart – are mostly small organisations. Consultancy swallowed a third of the class of 1994 from both Stanford and the University of Pennsylvania's Wharton school. A decade previously at Wharton the figure was only about 15 per cent.

This is the result of rapid growth in the consulting industry and its consequent appetite for good graduates. But that growth is in turn intimately connected with the downsizing and re-engineering movement. For a bright MBA, there is obvious appeal in wielding the axe rather than being its target.

When it comes to hiring, not all big companies seem to be equal. The biggest single hirer at Cornell this year, Merten says, is Hewlett-Packard. "That's a classic example of a big company operating as a group of small companies," he says. "Others try to present themselves that way."

Eugene Skogg, head of recruiting at General Electric, agrees. "Big companies do have to present themselves as smaller entities," he says. "All our market research has shown that the more specific you can make the job and its opportunities, the more the appeal."

According to Skogg, GE has encountered no difficulties. The company has 12 operating divisions. Of those, the main hirer of MBAs is GE Capital, which alone comprises 25 different subsidiaries. "While we always show our links to the bigger company," Skogg says, "our strategy is to showcase the individual businesses."

If a classic conglomerate such as GE can pull this trick off, other big companies may find the going harder. The implications for corporate America are thought-provoking.

As Merten observes, graduates who succeed with small companies may be lost to the big corporations for good. "In a small company, you work across a broad range of disciplines. It will be harder to attract successful people to the narrower work of the big company."

If so, downsizing may turn out to be not just a euphemism, but a literal truth: the fragmentation of American business into smaller entities. In terms of jobs and economic performance, that might, in the long run, be no bad thing.

NEWS FROM CAMPUS

Goodbye to the case study and simulation

Academics at Hec school of management in Paris have developed a method of teaching which they say improves on the traditional case study or simulation.

Students on the bilingual MBA course (French/English) are given data on the development of an actual company – Ferrovie dello Stato (FS), the Italian national railways – over five years, together with information on transport generally in the region. They are then given four potential scenarios and have to formulate strategies based on the information.

The three-and-a-half-day study ends with each group presenting their solutions to the chief executive of FS.
Hec: France, 1 39 67 70 00

Management study in the heart of Shanghai

Managers involved in business in China and Chinese managers alike are the target group of a two-week management development course which will be held in Shanghai in October.

The course will be hosted by the China Europe International business school and run as a joint venture between the Chinese school, the university of Michigan business school and Iese, the international graduate school of management at the university of Navarra, in Barcelona.

The course will examine issues such as the Chinese economy and law as well as general management issues.
Michigan: US, 313 763 9467

What women want in the business world

More than 200 American businesswomen – some company owners, others working in the public sector – have devised an economic action plan reflecting the priorities of women in business.

The plan was initiated at a conference on Women and Entrepreneurship, held at the Kellogg graduate school of management at Northwestern university and co-hosted by the National Women's Business Council, which is making the recommendations publicly available.

Top of the list of priorities is financing, followed by education and training.
Kellogg: US, 847 869 7983

Group of four chosen for training scheme

Four UK organisations have been selected to develop a continuing professional development scheme for managers in all areas of business.

The model, which should be fully developed by next summer, is intended to provide a relevant way for managers to develop their skills in line with both their personal objectives and the goals of their organisation.

The partners selected by the Management Charter Initiative for the government-funded scheme are the Association of Accounting Technicians, the Engineering Council, the Institute of Administrative Management and the Royal Institute of British Architects.
MCI: UK, (0)171 872 9000

● The latest book focusing on lifelong learning has been published by Kogan Page, in London. *Lifelong Learning* is co-authored by Norman Longworth, vice-president of the World Initiative on Lifelong Learning and Keith Davies, president of the European Lifelong Learning Initiative.
Kogan Page: UK, (0)171 278 0433

Heron raises £28m in Victoria Place sale

By Simon London, Property Correspondent

Heron International, the property company headed by Mr Gerald Ronson, has raised £28m from the disposal of the Victoria Place Shopping Centre, built around Victoria Station in central London.

The buyer is Speciality Shops, the retail property company which floated in 1994.

The acquisition of the 75,000 sq ft centre is the company's largest so far, and its first deal in London.

The disposal is the latest stage in the re-shaping of Heron, following its acquisition in 1994 by a consortium of private US investors.

Last year the company sold another of its largest assets, a retail and office building on Oxford Circus, to the Burton group for £94.5m.

Speciality Shops is buying Victoria Place in a joint venture with Hypo Bank, the German mortgage bank.

Speciality is providing £4.2m of equity for a half share in the joint venture company, but will receive more than half of any improvement in the value of the property.

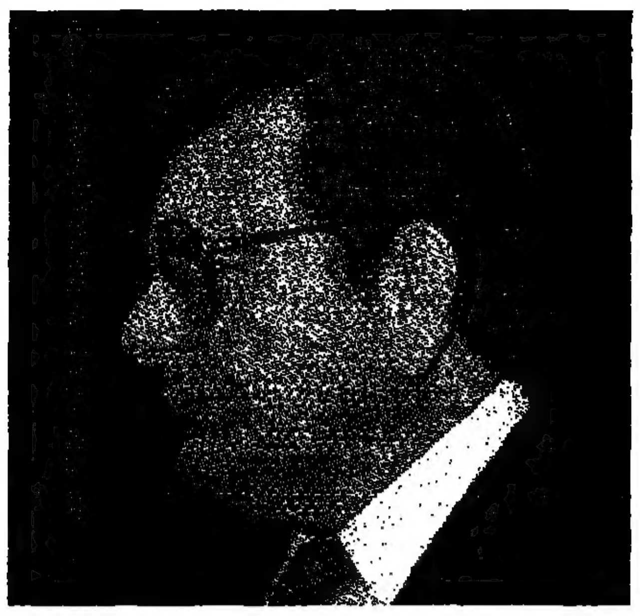
Victoria Place contains 33 shops and 10 restaurants, some of which are suspended above the station platforms.

The building produces rental income of about £2.2m, giving a yield at the purchase price of 8.25 per cent.

Speciality Shops already owns shopping centres in Edinburgh, Leeds, Maidstone and Bishops Stortford.

Net assets at the end of 1995 were £29.6m.

In Edinburgh the company hopes to benefit from plans being drawn up by Railtrack, the privatised rail company, for the redevelopment of the city's Waverley station.



Trevor Humphries

Gerald Ronson: disposal is latest stage in group re-shaping

NEWS DIGEST

£22m so far for Primary fund

Primary Capital, an independent private equity investment company set up by two well-known figures in the industry, will today announce it has raised at least £22m for a new fund.

Mr Charles Gonszor, a senior partner at Phildrew Ventures until 1994, and Mr David Hutchings, former deputy managing director of Montagu Private Equity, began marketing the fund almost 18 months ago.

Mr Gonszor said there were commitments of a further £3m from investors who said they would subscribe after the first closing. He hoped to have raised another £40m from additional investors by the end of the year.

The new fund will back management buy-outs with a value of between £5m and £100m, although Mr Gonszor did not expect too many large transactions.

The Primary fund is one of the first unquoted independent private equity funds to have been set up from scratch since a spate of new funds emerged in the early 1980s.

Richard Gourlay

Trio deeper in the red

Exceptional charges up from £4.63m to £7.81m left Trio Holdings, the money broker, with increased pre-tax losses of £11.79m for the six months to March 31, against £3.21m last time.

Mr David Hagan, chairman, said that the group had been busy implementing a strategy to reshape and reposition itself.

Unidare bears out warning

Unidare, the Dublin-based engineering group, saw first half pre-tax profits fall 27 per cent – justifying the warning delivered at the annual meeting in March that the interim outcome would fall shy of City expectations.

Reflecting disposals, turnover for the six months to March 31 declined 18 per cent to I£57.8m (£70m). Pre-tax profits totalled I£3.01m, against I£4.11m last time which took in I£168,000 of restructuring costs.

Big Six refuse to play the accountants' league game

Jim Kelly talks through a climate of change

The UK's leading accountancy firms traditionally break out of their shells in June, shedding the financial privacy which is their right as partnerships to disclose details about their businesses.

But this time things are going to be different.

The so-called Big Six firms, which normally dominate the league, have agreed among themselves that this year they are not playing the game. They argue that rapid change among audit firms servicing companies in the FT-SE 100 has left the annual fee income table which brought together the figures they released looking like a relic from the past and largely irrelevant.

The engine for this rapid change is the fear among the big firms of escalating legal costs linked to their unlimited liability as partnerships.

KPMG, one of the Big Six, has incorporated part of its audit business to help limit liability, and this led it to publish full 'plc style' results in January this year.

But other Big Six firms are unlikely to follow this route as they claim to have found a better answer to the problem of limiting their exposure to litigation costs: they are looking at registering as limited liability partnerships in Jersey. This option would not automatically lead to greater disclosure, unlike incorporation.

The Big Six say their best course of action is to disclose results separately – possibly alongside global figures for their worldwide networks later in the year. Ernst & Young has promised to provide fuller results in a partnership format this autumn.

Sceptics wonder whether the Big Six are simply taking the opportunity to ditch the annual table which provided a sometimes embarrassingly clear picture of the whole sector.

But other more fundamental pressures were also at work. The UK fee income table failed to show the profitability of the Big Six's various lines of business. It also failed to show the global nature of their client services and the fact that their real competitors are often legal firms, merchant banks, or specialist consultants rather than each other.

The annual table also lumps together the big audit firms and the so-called "second tier" firms, although their businesses have become radically different. Only three firms outside the Big Six – Clark Whitehill, Pannell Kerr Forster and Kidsons Impey – have a FT-SE 100 audit, and one of those audits is shared. Outside the Big Six many firms service smaller niche markets or specialise in owner-managed and growing businesses.

But the annual fee income table still represented the best data available. This year, firms below the Big Six are going ahead with the normal level of disclosure – and early indications are that the sector is finally pulling into growth above inflation. The information we have also suggests the Big Six firms are growing fastest in terms of revenues.

More importantly, a comprehensive survey of fees paid to the FT-SE 100 auditors, published last week by *Accountancy Age*, showed a 0.5 per cent increase in normally stagnant statutory audit fees – and a healthy 9 per cent growth in add-on fees such as IT advice and tax.

With widespread anecdotal evidence that corporate finance fees have been running strongly, the future looks brighter for the sector than it has for several years.

Al-Fayeds may float Harrods to fund expansion

By Conner Middelmann

The Al-Fayed brothers are considering the flotation of Harrods, the London luxury department store they own, in a move that industry analysts estimate could value the group at about £2bn.

Harrods said yesterday that no firm decision had yet been taken, and that there was no timetable.

However, it is understood that a flotation is among a number of options being considered to fund the company's expansion.

If a flotation does go ahead, it is unlikely the Al-Fayeds would cede control of the company and analysts believe no more than 25 per cent of the company would be sold, raising about £500m.

Harrods' expansion plans include: a revamp of the Knightsbridge store; the creation of a 144-room hotel at the company's old depository in Trevor Square; the redevelopment of the company's Barnes depository as a luxury residential complex and of the Knightsbridge Court House, which Harrods bought for £25m last December, into high-class service apartments.

The company also wants to expand its presence overseas. It plans to open more of its Signature stores selling food and other branded products.

In making its decision on whether to float, Harrods is likely to be influenced by the success of other luxury goods companies which have sold shares in recent months.

Recent successful flotations include Harrods' Knightsbridge neighbour, department store Harvey Nichols, Saks Holdings, the parent company of Saks Fifth Avenue in New York, Italian fashion house Gucci, and Italian jeweller Bulgari.

Mr Mohammed Al-Fayed and his brother Ali acquired Harrods in 1985 as part of the House of Fraser department store group. Since then they have floated off other stores in the House of Fraser group.

Management in £17.5m buy-out of two CI pits

By Patrick Harverson

Two pits owned by Coal Investments, the UK mining group which collapsed in February, have been sold for £17.5m to a management buy-out team led by Mr Jim Sorbie, the group's former production superintendent.

The sale by Arthur Andersen, CI's administrators, of the Silverdale colliery near Stoke-on-Trent and the Annesley Bentinck mine in Nottinghamshire protects 700 jobs.

The management team was backed by venture capital group Candover Investments.

The company set up to buy the collieries, Midlands Mining, has reportedly also secured £2.5m to fund working capital requirements and has signed a five-year contract to supply coal to a power generator. The two mines currently produce about 100,000 tonnes of coal a month.

The fate of CI's other four mines remains in the balance.

Arthur Andersen says it is negotiating to put together £50m in financing to resurrect Coventry Colliery, where only 90 of 300 employees are still working.

The firm believes the refinancing could extend the mine's life by at least 13 years and turn it into a producer of some 2m tonnes a year. The mine's seams are among the thickest in Europe, but without further investment they will be exhausted in the next few weeks.

The administrators are also reviewing options for Markham Main in Doncaster, where 90 of 290 staff are still working.

The remaining mines, Cwmgwili near Swansea, and the Hem Heath colliery at Stoke-on-Trent – whose 110 workers were laid off by the administrators several months ago – are in the hands of the Coal Authority.

Coal Investments was founded in 1993 by Mr Malcolm Edwards, the former commercial director of British Coal, and collapsed in February owing £57m after its bankers refused to increase loan facilities.

The company owes £26m to it banks, and the rest to trade creditors.

WEEKEND SHARE WATCH

A digest of Saturday and Sunday comment on UK companies

■ Lucas Industries is in talks with Boeing about acquiring the aerospace group's cargo handling business in a cashless deal that will see Lucas take over the running of the operation in return for guaranteed contracts, the Sunday Telegraph reported.

The motor components group would not comment on the report, which it described as speculative, but confirmed that it was looking for opportunities to expand its business in the aerospace market.

■ SmithKline Beecham denied a report in the Independent on Sunday that it is planning to move its corporate headquarters from the UK to the US, with the loss of up to 500 jobs.

A spokesman for the Anglo-American drugs group said the story was "absolutely untrue."

■ Carlton Communications, the media group, is in talks to buy the UK's biggest advertising sales house, Cinema Media, according to the Sunday Telegraph.

Cinema Media – better known by its former name, Rank Screen Advertising – holds about 80 per cent of the cinema advertising market, and industry sources estimate a £35m price tag for the company, the paper reported.

No company spokesman was available for comment.

COMPANIES AND FINANCE

Rome prepares more state sales

By Andrew Hill in Milan

The Italian government's privatisation advisers will this week begin final preparations for the rapid sale of the Italian Treasury's shares in Ina, the insurer, and Imi, the banking group, which together could raise up to L1,800bn ($1.16bn).

In its first firm statement on privatisation, the centre-left government announced last week that it intended to place 6.77 per cent of Imi – all its remaining shares – and about half of its 31 per cent stake in Ina with institutional investors, by the end of July.

By October, the Treasury intends to sell a second tranche of shares in Eni, the oil, gas and chemicals group.

The shortlist did not include the long-awaited sale of a 64 per cent stake in Stet, the telecommunications holding company, and the first stage of privatisation of Enel, the state electricity producer. Bankers believe these sales may not take place until early 1997.

Treasury officials said Mr Carlo Azeglio Ciampi, the new Treasury minister, had wanted to give "a strong signal" about the government's willingness to proceed with privatisation. In the meantime, the government would continue to press for the rapid completion of the regulatory framework for an early sale of Stet and Enel.

Certain centre-left politicians have been lobbying for a reshuffle of management at Stet and Enel, to encourage faster liberalisation. Political battles are likely to be fought in coming weeks over the membership of Enel's board, the nominations for a new electricity regulatory authority, and the establishment of a telecoms regulator. Stet management, reconfirmed last week, says it is ready for full privatisation, but a sale cannot go ahead until parliament agrees the regulatory structure.

Analysts have played down the political argument over board membership, saying that installing a new board at Stet or Enel would be more likely to set back the privatisation timetable. But they believe the Stet sale may have to be delayed until February 1997, to avoid clashing with the privatisation of Deutsche Telekom this autumn, and the spring 1997 sale of France Télécom.

Some bankers believe the only solution may be to spring a rapid sale on the markets, as happened with last year's Eni privatisation. "In Italy, the only way to go forward is often to go suddenly," said one adviser last week.

The sale of half the 31 per cent Ina stake will be achieved through an innovative issue of government bonds, which can then be exchanged for Ina shares. The method was selected to avoid having to place Ina shares at a price lower than that of the initial offering in 1994.

The government has yet to indicate how many Eni shares will be offered in the second tranche this autumn. If anything, the appetite for Eni stock has increased following last autumn's sale of a 15 per cent stake, and the share price has risen strongly since.

The government has confirmed the original global co-ordinators, valuers and advisers for all three offerings.

Aznar friend takes chair at Telefónica

By Tom Burns in Madrid

Juan Villalonga

Mr Juan Villalonga, a merchant banker and a childhood friend of Spanish prime minister Mr José Maria Aznar, has been appointed chairman of Telefónica, Spain's largest industrial group – which is 20 per cent state-owned – following the formation of a new government.

He replaces Mr Cándido Velázquez, who was appointed by the previous socialist government. Over the past seven years Mr Velázquez has built Telefónica into the largest telecoms operator in Latin America and doubled the group's profits to Pta130bn ($1bn).

Mr Villalonga, 43, formerly chief executive of the Madrid office of Bankers Trust, takes over at a challenging time. The domestic telecoms sector is to be wholly deregulated over the next two years and Telefónica, which is in the midst of complex negotiations to secure international alliances, will be fully privatised.

As part of the change-over of top executives in companies linked to the public sector, Mr Oscar Fanjul, the founder and chairman of the energy group Repsol, has been replaced by Mr Alfonso Cortina, a close friend of economy minister Mr Rodrigo Rato, and Mr Cesáreo Alierta will today become chairman of Tabacalera, the tobacco company, in place of Mr Pedro Pérez.

Mr Cortina, formerly president of the cement company Portland Valderribas, is a director and major shareholder of Banco Bilbao Vizcaya (BBV), which is in turn a major shareholder of Repsol.

BBV denied yesterday it had orchestrated the removal of Mr Fanjul and said Mr Cortina had been appointed at the request of the government.

Mr Alierta, a prominent Madrid stockbroker, will be entrusted with the disposal of the 52 per cent stake that the state holds in Tabacalera.

Last month Mr Aznar's centre-right government put another broker, Mr Francisco González, in charge of Argentaria, the banking group which is 25 per cent owned and is also due to be fully privatised.

● Repsol is to acquire a controlling 38 per cent stake in Astra, the second-ranked gas company in Argentina, for $360m. The Spanish group is already present in Argentina through its Gas Natural unit.

AsiaSat share sale to be priced at HK$20

By Louise Lucas in Hong Kong

Asia Satellite Telecommunications, the Hong Kong-based satellite consortium, has set a maximum of HK$20 a share for its flotation on the Hong Kong and New York stock exchanges, higher than the HK$14.88–K$18.18 figure suggested last week.

Shareholders, who are selling 27 per cent, of the company, stand to raise up to HK$2.1bn (US$271m).

AsiaSat is now equally owned by Hutchison Whampoa, the Hong Kong conglomerate; Cable and Wireless, the UK telecommunications group; and China International Trust and Investment Corporation (Citic), Beijing's main investment vehicle. The three have been with AsiaSat since its inception in 1988 and have drawn no dividends or other funds in that time.

The increased pricing suggests strong demand but the offer will be affected by recent crashes of rockets launching satellites.

In February, a Chinese rocket, a new generation Long March, blew up, and earlier this month Europe's new Ariane 5 rocket exploded shortly after lift-off on its maiden flight from French Guiana.

AsiaSat now owns and operates two satellites, both of which were launched by Chinese rockets. AsiaSat 3, due to come on stream late next year, is to be launched by Russia's Proton system. AsiaSat 4 is scheduled for launch in 1999, about the end of AsiaSat 1's operational life.

The company's biggest customer to date is Star TV, the pan-Asian broadcaster owned by Mr Rupert Murdoch's News Corp, which has accounted for more than half of AsiaSat's revenues the past three years. Other customers include the governments of China and Pakistan, Hongkong Telecom and Singapore Telecom.

Under the proposed listing, 105.3m shares will be offered by Cable and Wireless and Citic. Half will be sold in the US and Canada: 42.12m will be placed internationally and 10.53m will be offered in Hong Kong. Outside Hong Kong, investors can opt for shares or American depositary shares equivalent to 10 shares.

NEWS DIGEST

Australis nine-month loss tops A$160m

Australis, the Australian pay-TV operator that has been beset by financial woes, reported a loss of A$66.5m (US$52.6m) in the three months to end-March, bringing the deficit for the first nine months of its financial year to A$164m. Sales for the third quarter were A$18.6m and for the first nine months, A$31.9m. Australis said that the number of direct subscribers remained steady at 122,000 "as a consequence of the liquidity problems experienced during the quarter".

Australis has a further 31,000 subscribers in franchisee regions and 75,000 via the Foxtel cable consortium, run by Mr Rupert Murdoch's News Corporation and the Telstra telecommunications group.

Last month, Australis managed to secure an emergency rescue package, which brought in Mr Kerry Packer, the Australian media proprietor as one of the group's new backers. The group said that the second leg of the planned recapitalisation – which envisages replacing this short-term facility with longer-term funds – was now "in advanced stages of implementation and is expected to be concluded within the next few months".

Australis shares were suspended briefly on Friday, as the result of a stock exchange query, but closed unchanged at 40 cents.

Nikki Tait, Sydney

Cott confident on full year

Cott, the Canadian-based soft drinks bottler, posted lower first-quarter earnings but expects to stay well in the black for the full year. Toronto-based Cott has been downsized because of heavy losses last year caused mainly by price wars. This year, it is benefiting from lower packaging costs and the restructuring.

For the three months ended April 27, net profit was C$7.3m (US$5.3m) or 12 cents a share against C$9.8m or 15 cents a share on revenues of C$307m against C$282m. Gross margins rallied to 16 per cent from 3 per cent in the previous quarter to equal the year-earlier level. US sales rose 9 per cent to represent 57 per cent of total volume, but operations in South Africa, Australia and Japan remained difficult.

Cott shares have risen by about 25 per cent in the past few weeks to C$11.40.

Robert Gibbens, Montreal

SAS expands Lufthansa deal

Scandinavian Airlines System said its code-sharing co-operation with Deutsche Lufthansa AG will be expanded to cover 34 European destinations with 950 flights a week from July 1. Code-sharing currently covers 12 destinations in Scandinavia and Germany. These routes are operated on a joint-venture basis under both airlines' flight numbers. The two airlines will now examine the possibility of code-sharing to other destinations in and outside of Europe, SAS said.

AFX, Copenhagen

Lihir Gold hedging in place

Lihir Gold, the listed group which is developing the large Lihir gold mine in Papua New Guinea, said it had completed implementation of the gold hedging programme required by its banking backers. Under the bank agreements, the company was required to ensure a minimum income from one-third of planned production between March 1998 and December 2002. Lihir said the completed hedging programme would ensure an income of between US$422 and US$485 for about 1m ounces of gold over the period.

Nikki Tait

Goldman buys into Yue Yuen

Goldman Sachs, the US investment bank, has made its second investment in a Hong Kong public company. It is to inject US$55m into Yue Yuen Industrial, a sports shoe manufacturer, to buy new shares equal to 9.9 per cent of the existing outstanding share base.

The cash will finance Yue Yuen's plans to double its worldwide production capacity in China, Indonesia and Vietnam. The directors are to buy out their joint venture partners in Pou Yuen Industrial, thus giving the company an annual turnover of close to US$1bn.

At the same time, Goldman Sachs is to invest US$30m in Pou Chen Corporation, a Taiwan-listed company which will become a significant shareholder of Yue Yuen after the expansion. Goldman Sachs will take a seat on the board of Yue Yuen and work closely with the company on its strategic direction. Yue Yuen says the expansion will create economies of scale and enhance its competitiveness.

Goldman Sachs has made about 20 investments in public and private companies in Asia, including India. It started its Asian programme of direct investment in 1992.

Louise Lucas, Hong Kong

WH Smith agrees DIY disposal to Boots

By Christopher Price

W.H. Smith, the UK high street retailer, will this week announce the disposal of its half share in the Do-It-All chain to fellow retailer Boots, its partner in the home improvement stores group.

The company is expected to pay £50m ($77m) to Boots as part of the deal. Do-It-All, which last year lost over £20m, is undergoing a restructuring involving the sale or closure of a third of its 195 stores.

The sale is expected to be announced on Wednesday, when Mr Bill Cockburn, W.H. Smith chief executive, unveils a review of the group's entire business. The process was initiated following Mr Cockburn's appointment and followed the group's second profits warning in a year.

Boots made clear when announcing last week's results that it believed in "maximising value" from the DIY chain. The company said yesterday that the revamped stores were close to break-even and it believed the chain was in good shape to take advantage of the recovery in consumer spending and the pick-up in the housing market.

Boots' said last week its share of losses at Do-It-All rose from £6.3m to £10.1m last year after an 8 per cent fall in sales.

Smith signalled its intention to sell Do-It-All two weeks ago and it is understood that negotiations between the two co-owners have been continuing for a number of weeks. Under the joint-venture agreement, either party is obliged to offer the other first choice should one decide to exit.

It is understood that while there were enquiries from several other interested companies, none was interested in buying more than half of the existing chain. It is also understood that closure of the chain was not contemplated because of the high cost. Analysts estimate such a move would cost about £200m.

The sale of Do-It-All will form only one strand of Mr Cockburn's review, which is designed to return Smith back to sustained profitable growth. The review is widely expected to focus on seeking a significant improvement in the performance of the group's 550 stores.

Around 1,000 redundancies are likely to be sought as part of a new efficiency drive. The company is also thought likely to close its London headquarters in Sloane Square. Analysts are bracing themselves for a large one-off restructuring charge, including the £50m for DoItAll.

Mr Cockburn is thought to be considering an overhaul of UK stores, including the closure of some underperforming branches, a revamp of sales formats, strengthening stock management and improving service.

The company intends to exploit its customer base more effectively. For example, of the 7.5m customers a week, only 62 per cent purchase something and the average spend is just £5. Its net retail margins at 4.5 per cent are less than half those achieved by Boots.

At its last results, Smith reported a sharp fall in interim pre-tax profits from £45.2m to £17.3m, despite a rise in sales to £1.85bn from £1.22bn.

هكذا من الأصل

SES unveils plans for two digital satellites

By David Buchan in Paris and Raymond Snoddy in London

SES, the Luxembourg-based satellite company, has outlined plans for opening up a new orbital position with the launch of two further satellites to broadcast digital television channels across Europe.

The new satellites will provide capacity for 500 to 600 new television channels over Europe. Capacity is also being set aside to offer interactive business-to-business services.

Mr Romain Bausch, director general of SES, said that because of the high demand from UK broadcasters it was possible that all of the 2(a) satellite, to be located at 28.2 degrees West, might be given over to English-language programmes. British Sky Broadcasting, the UK satellite venture, has already booked 14 transponders.

For the first time SES has ordered a satellite from a European manufacturer, as well as from its usual supplier Hughes Space and Communications of the US, which will launch 2(a) this summer.

Matra Marconi Space (MMS), the Franco-British company, said last week it had been awarded a contract for a digital television satellite to be launched in late-1998.

At a press conference in Paris, Mr Armand Carlier, president of MMS, said this was the first time a European company had beaten Hughes of the US for an SES satellite contract. He said it provided some consolation for the European space industry after last week's failure of the Ariane-5 rocket for which MMS was one of the contractors.

The two new satellites will give Astra 56 new transponders, each of which can be turned into eight to ten television channels using digital compression technology. They will be able to deliver pictures to 45 cm dishes, perhaps smaller in some areas.

Mr Carlier said the value of the MMS contract remained confidential at SES's request. But he claimed that because MMS would build both the satellite payload and platform, 60 per cent of the contract's value would be kept in-house, spread between MMS's French and British factories.

With the SES award, MMS had now won nine telecommunications satellite contracts in as many months, worth an overall $1bn.

Mr Carlier claimed that MMS's launch into digital TV satellites reinforced the case for Matra's French parent, the Lagardère group, to be allowed to buy the state-owned Thomson group which is to be privatised later this year.

Kone takes Krupp escalator arm in FM615m paper deal

By Hugh Carnegy in Stockholm and Michael Lindemann in Bonn

Kone of Finland, the world's third-largest lift producer, is to take over the escalator operations of Krupp in a FM615m ($131m) deal that will leave the German engineering group with a 10 per cent stake in Kone.

Krupp is selling its 60 per cent share in Orenstein & Koppel escalators in exchange for a new issue of Kone's A and B shares that will equal 10 per cent of the voting capital in the Finnish group, making Krupp one of Kone's top three shareholders.

Kone already holds the other 40 per cent of the escalator company, O&K Rolltreppen. O&K has sales of DM270m ($176.5m) and will expand Kone's escalator business into one of the world's largest at a time when demand for moving stairs and walkways is growing much faster worldwide than for elevators. Escalators has to date accounted for less than 20 per cent of Kone's FM9.5bn annual sales.

Krupp, which specialises in steel, heavy engineering and automotive technology, said the O&K Rolltreppen, although profitable, was too small to become one of the group's core activities.

The Essen-based group said it was still talking to "a number of interested parties" about the sale of the mining and construction machinery businesses of O&K. These loss-making operations were hived off from the escalator activities last December to prepare them for a sale which is expected to be completed later this year.

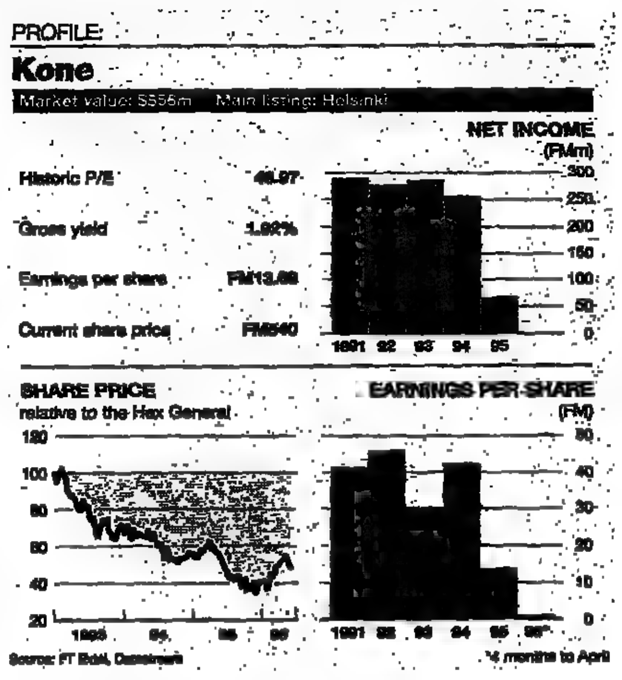
The O&K announcement coincided with Kone's results for the first four months of the year which showed a slump in pre-tax profits from FM34m last time to FM17m. Earnings per share slid from FM1.98 to FM0.87. Kone blamed low prices.

It also said its operations in Italy – where it was hit last year by deliberate false profits statements by local managers – remained in losses. "The problems are deeper than we thought and rooting them out will require more time and greater cost than originally estimated," Kone said.

It gave no further details. The Italian affair was previously said by Kone to have cost FM173m in fictitious profits over 1993, 1994 and 1995.

Despite the warning, Kone, third-biggest in the sector after Otis of the US and Schindler of Switzerland, said it was still aiming for profits for the full year to be ahead of last year's pre-tax result of FM186m.

In the first four months, sales rose from FM2.65bn to FM3bn and the value of new orders jumped from FM2.1bn to 2.6bn.



Harvard sells its stake in Plzeňsky to Czech bank

By Vincent Boland in Prague

Harvard Group, the Czech fund management operation, has sold its stake in Plzeňsky Prazdroj, the country's flagship brewing group, in apparent proof of the adage that there is nothing a foreigner can teach a Czech about beer.

Harvard, run by the Bahamas-based Czech businessman Mr Viktor Koženy, sold the 31.8 per cent stake in the brewery, which it held in association with the investment group Stratton, to IPB, the third-biggest Czech bank, after a dispute with other shareholders about how to develop Plzeňsky's marketing drive.

The transaction takes the stake in the brewer held by the bank and its investment funds to 53.3 per cent. No price was disclosed for the deal.

Plzeňsky, maker of Pilsner Urquell, the premier Czech beer, has a market value of about $190m and is the largest and best-known brewing group in the Czech Republic.

Harvard and Stratton had sought to introduce Mr Christopher Varley, a former executive with the US brewer Anheuser-Busch, to boost Plzeňsky's marketing operations and exploit its premium brand image abroad.

But Mr Varley's arrival was firmly resisted by other shareholders and by management. Both sought to maintain the brewer's Czech character and its dominance of the local market, of which it has a 17 per cent share.

With one or two exceptions, notably the alliance between Bass of the UK and Prague Breweries, the Czech brewing industry has proved resistant to "foreign" influence.

On Friday, Mr Vladimír Perina, the brewer's chief executive, said: "We think the new, strong investor will support our long-term strategy."

Stratton, owned by Mr Michael Dingman, a neighbour of Mr Koženy's in the Bahamas, did not own a direct stake in the brewery. An agreement among Plzeňsky's shareholders, to which Harvard and IPB are parties, limits trading in most of its shares to a small group of local shareholders.

Mr Daniel Arbess, chief executive of Stratton, acknowledged that its joint strategy had not worked out. "We struggled hard but found it very tough going," he said.

Newcrest abandons Normandy merger

By Nikki Tait in Sydney

The three-month war of attrition between Mr Robert Champion de Crespigny's Normandy mining group, and Newcrest Mining, the Australian gold miner, came to an end on Friday when Newcrest admitted that a merger between the two companies "was not possible on an acceptable basis".

Instead, Newcrest said it would "pursue means by which it will realise the maximum value to Newcrest shareholders of its investment in the Normandy group". The company has spent about A$470m (US$369m) buying up a near-15 per cent stake in Normandy and a further 12.5 per cent in PosGold, Normandy's gold mining subsidiary.

Newcrest's raid on Normandy came in March when Minorco, part of South Africa's Anglo-American Corporation, sold out of the Australian group. At that stage, Normandy was planning a four-way merger between itself, PosGold, and two other gold mining companies in which PosGold has minority stakes.

But Newcrest used its PosGold holding to block the deal, saying it wanted to be included in the merger plan.

Negotiations between Newcrest and Normandy went nowhere, and last week Normandy dismissed Newcrest's final merger scheme – details of which were publicly disclosed – as "poorly-conceived, complex and unworkable".

On Friday, Newcrest confirmed that, if Normandy wanted to re-present its original merger plan, it would not block this a second time. "That would be illogical," the gold miner commented.

However, it remained more circumspect about how it would dispose of the Normandy and PosGold holdings, saying only that the board would consider all options.

Normandy shares rose 1 cent to A$2.16 on Friday and Newcrest gained 16 cents to A$5.53. PosGold was 22 cents higher at A$3.32. At these levels Newcrest is showing a hefty loss on its investment.

NEWS DIGEST

Usinor Sacilor sees downturn for 1996

Mr Francis Mer, chairman of Usinor Sacilor, the French steel group, said results and sales in 1996 would be "clearly less good than [in] 1995 while remaining positive". "It is clear that we will not achieve the results we forecast at the end of last year," he added.

He said results in the first half of 1996 will be lower than a year earlier, "which was exceptionally good". Sales in the first quarter fell 9.9 per cent from FFr20.87bn to FFr18.73bn ($3.61bn).

AFX News, Paris

SMH upbeat on prospects

SMH, the Swiss watch group, said sales in the four months to April were higher than a year earlier. Mr Nicolas Hayek, chairman, said 1996 started off in a positive mode for all the SMH subsidiaries and brands.

SMH said 1995 operating profits fell from SFr386m to SFr272m ($216m) and operating profit margins fell from 14.8 per cent to 10.3 per cent. Mr Hayek said SMH's investment policy over the past two years was beginning to bear fruit, but the company would only be able to confirm the first-quarter "boom" at the end of December.

AFX News, Biel

Giat seeks investor for Herstal

Giat, the lossmaking French state-owned arms company, has said it is searching for an investor to buy some or all of its 92 per cent stake in FN Herstal, its Belgian subsidiary, or just to help keep the Liege-based company going. Herstal makes the famous FN rifles, and has subsidiaries making the equally celebrated Browning and Winchester weapons.

But it has fallen on hard times in recent years. In return for assuming its debt, Giat took Herstal over for a symbolic FFr1 in 1990. The Liège company is now undergoing further restructuring, whose cost Giat is now itself in no position to shoulder.

The government of the Walloon region owns the other 8 per cent of Herstal, but is no more inclined than Giat to pay the necessary redundancy money to lay off 20 per cent of Herstal's workforce over the next three years. If it cannot find a buyer for its Herstal shares, Giat said it was nonetheless interested in finding someone to "subscribe to a capital increase to fund the restructuring plan and to keep the business going".

David Buchan, Paris

Stone-Consolidated plans cuts

Stone-Consolidated, the US Stone Containers international newsprint arm, said its Ontario and Washington State mills would take further downtime this summer to reduce inventories. This means Stone will have taken 100,000 tonnes of newsprint out of the market since January 1 and 62,500 tonnes of ground wood specialities. Total capacity of all grades is nearly 2m tonnes, including the Bridgwater mill in England.

Robert Gibbens, Montreal

Venezuelan sale renegotiated

The Venezuelan government has renegotiated its contract with Lehman Brothers and SBC Warburg, the investment banks promoting the sale of up to a 49 per cent share in the telephone company CANTV. The sales commission has been cut from 4.5 to 2.4 per cent of gross sales receipts and the duration of the contract has been reduced to 12 months. The government had come under pressure to renegotiate the contract, which was seen as disadvantageous to government. The agreement is to be signed shortly and the first share package is to be offered late this year.

Ray Colitt, Caracas

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National Treasury Gtd FRN 1999 $13.66
Allied Signal $0.225
Anheuser-Busch $0.44
Bentalls 1.62p
Bloomsbury Publishing 2.72p
Cardiff Auto Receivables No 2 Class A FRN 1997 £166.67
Do Mezzanine FRN 1997 £195.83
Davis Service 6.27p
Densitron 1p
Derwent Valley 3.77p
Dun & Bradstreet $0.66
Eksportfinans 10¾% Nts 1998 L531250.0
Exxon $0.79
Flesh Ser Kappa Secd FRN 1997 Y231845.0
Fuji Bank Int Fin Pepr Sb FRN $15421.42
General Electric 10% Nts Jun 1996 C$100.0
General Motors $0.40
Grace (WR) $0.125
Halifax Bldg Scty 13⅝% Perm Int Brg £3406.25
Do FRN 1999 $13.82
Houston Inds $0.375
IBM $0.35
Investors Capital Tst Rest/Vtg 1.35p
Do Units 1.35p
JBA 3p
Lilly (Eli) $0.3425
National Australia Bank Sb Var Rate Nts 2000 £165.53
Nat West Bank Var Rate Cap Nts 2009 £170.15
Nippon Chemi-Con Gtd FRN 1996 $308.65
Nippon Credit Bank Fin Gtd Fxd/FRN Jun 2004 $3147.57
Do Fxd/FRN Dec 2004 $3147.57
P & O Dfd 17p
Portman Bldg Scty FRN 1997 £160.52
Road Mngmnt 9.18% Gtd Bd 2000-21 £183.60
Sabre Int (No 2) Ser N Var Rate Nts 1996 Y23777.0
Do Ser Q Y26405.0
Sakers Fin 5½% Gross Pf R0.065
Standard Chartered Und Prim FRN (Ser 3) $296.77
Sumitomo Bank Cap Mkts Gtd Fxd-FRN 2003 $30586.11
Sumitomo Heavy FRN 1998 Y26344.0
Tate & Lyle Int 5¾% Gtd Bd 2001 £63.09
Texaco $0.80
Treasury 8% 2003 £4.0
Utd Technologies $0.55
Uppsala (City of) FRN 1998 $298.70
Utility Cable 0.27p
Warner-Lambert $0.69
Wigmore Property Inv Tst 0.3p

■ TOMORROW
Astec (BSR) 1p
Chime Comms 0.96p
English China Clays 11.2p
Japan Development Bank 9½% Gtd Nts 1997 $475.0
Kobe Steel 4.7% Bd 1998 Y470000.0
Kubota FRN 1997 Y24717.0
Mitsui 4.3% Bd 1997 Y430000.0
Do. 4.6% Bd 1998 Y460000.0
Nichii 5½% Bd 1998 Y550000.0
Nippon Sanso 7.2% Bd 1998 Y720000.0
Tenneco $0.45
Toyota Motor 6⅝% Bd 1997 $68.75
Treasury Fltg Rate 1999 £1.4956

■ WEDNESDAY JUNE 12
Bankamerica $0.54
Challenge Bank FRN 1997 $14.46
Eaton Fin 12½% Un Ln 2014 £6.25
Exchequer 12% 2013-17 £6.0
Five Arrows Chile Inv Tst $0.03
MY Hldgs 0.7p
Monsanto $0.75
Municipality Fin 9½% Gtd Nts 1997 £95.0
NEC 7% Bd 1998 Y700000.0
NSK 7.2% Bd 1998 Y720000.0
Ockham 2.75p
Osaka Gas 7% Nts 1998 Y700000.0
Royal Insurance 7¼% Cv Bd 2007 £181.25
Sapporo Breweries FRN 1997 Y211633.0
Templeton Latin America Inv Tst 0.35p
VTR 1.75p

■ THURSDAY JUNE 13
British Empire Sec & Gen Tst 0.25p
Lloyds Bank Prim Cap Und FRN $298.65
London & Manchester 12.62p
Pearson 10½% Bd 2008 £105.0
Pfizer $0.30

■ FRIDAY JUNE 14
Anglo-Eastern Plantations 3.4p
Atlantic Richfield $1.375
Barrick Gold $0.07
Brunswick $0.125
CSX $0.26
Chase Manhattan FRN 2009 $142.15
Chepstow Racecourse 6p
Commerzbank O'seas Fin Gtd FRN 1998 $3882.0
Conversion 9½% 2002 £4.75
Delphi 3p
East Rand Gold R0.65
Elys (Wimbledon) 30p
Fairey 5.45p
Free State Cons R0.45
Gracechurch Mortgage Fin (No 2) Class A Mtg Bckd FRN 2028 £1130.42
Do (No 3) 2029 £1214.93
Do (No 1) 1998 £116.31
Do Mezzanine FRN 1998 £496.63
Guangdong Dev $0.05
Holt (Joseph) 43p
Hongkong & Shanghai Banking Prim FRN (Ser 2) $72.67
Int Energy 2.9p
Lloyds Bank Sb FRN 2004 £34.38
Manpower $0.07
Pacer Systems $0.035
Ragby Gtd FRN Dec 1997 $14611.39
Tokyo Elec Power 10½% Nts 2001 C$105.0
Trinova $0.20
Venturi Inv Tst 2.62p
Weir 5.3p

■ SATURDAY JUNE 15
AECI 5½% Gross Pf R0.055
Blenheim 6.4% Cv Pf 3.2p
Caisse Nationale des Autoroutes 16% Gtd Ln 2006 £400.0
Canadian Gen Invs $0.075
Dana $0.25
Pennzoil $0.25
TRW $0.55
Wagon Ind Cv Ptg Pf 3.625p
Whirlpool $0.34

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Anglo-Eastern Plantations, 1, St Pauls Churchyard, E.C., 11.00
BIS, Brewers Hall, Aldermanbury Square, E.C., 11.30
Headlam, Belfry, Lichfield Road, Wishaw, Warwicks., 11.30
Laser-Scan, Unit 101, Cambridge Science Park, Milton Road, Cambridge, 9.30
Middlesex Hldgs, City of London Club, 19, Old Broad Street, E.C., 3.30
Templeton Latin American Inv Tst, Butchers Hall, Bartholomew Close, 11.00
3i Smaller Quoted Co's Tst, Saltire Court, 20, Castle Terrace, Edinburgh, 12.30
Trinity Hldgs, Allesley Hotel, Birmingham Road, Allesley, Coventry, 11.00
BOARD MEETINGS:
Finals:
Acal
Camellia
Dee Valley Water
Electrocomponents
Ensor
Eurodollar
Field
Foil Circle
Renold
Rowlinson
Salvesen (Christian)
600 Grp
Unigate
Wymetay Props
Interims:
Berisford
Cass UK
Electronic Data Processing
Slimma
Treatt
Widney

■ TOMORROW
COMPANY MEETINGS:
Bank of Scotland, Balmoral Hotel, 1, Princes Street, Edinburgh, 11.30
Clarke Nickolls & Coombs, Unit 2, Grand Union Office Park, Packet Boat Lane, Uxbridge, 11.00
Clarkson (Horace), 12, Camomile Street, E.C., 12.00
NTR Inc & Growth Split Tst, 3, Finsbury Avenue, E.C., 3.30
Style, Harrogate Road, Apperley Bridge, Bradford, 11.00
S & U, Plough & Harrow Hotel, Hagley Road, Birmingham, 11.30
Tarmac, Queen Elizabeth II Conference Centre, Broad Sanctuary, S.W., 12.00
BOARD MEETINGS:
Finals:
Amberley
Amersham Int
Ann Street Brewery
BSS
Babcock Int
British Thornton
CML Microsystems
Drummond
East Midlands Elec
Great Portland Estates
Henderson Admin
Marshalls
Northern Foods
Policy Portfolio
Prime People
Severn Trent
Thorn EMI
Volex
Interims:
Bradstock
Firth Rixson
NFC
River Plate & Gen Inv Tst
Toy Options

■ WEDNESDAY JUNE 12
COMPANY MEETINGS:
Bisichi Mining, 8-10, New Fetter Lane, E.C., 12.00
Blockleys, Madeley Court Hotel, Telford, Shropshire, 12.00
Brixton Estate, 22-24, Ely Place, E.C., 12.00
Dencora, Waveney House Hotel, Puddingmoor, Beccles, Suffolk, 12.00
Essex Furniture, 1, The Forum, Temple Farm, Sutton Road, Southend, 11.30
Holt (Joseph), Roebuck Hotel, 2, Church Road, Flixton, Manchester, 12.00
Oxford Molecular, Magdalen Centre, Oxford Science Park, Oxford, 11.00
TransTec, Royal National Hotel, Bedford Way, W.C., 11.00
BOARD MEETINGS:
Finals:
BAA
Bradford Property Tst
Bristol Water
British Land
London Insurance Market
Mansfield Brewery
Meyer Int
Seafield
Stirling
WT Foods
Wilmington Group
Interims:
Blick
Chemring
Goldsborough Healthcare
Granada

■ THURSDAY JUNE 13
COMPANY MEETINGS:
Ely's (Wimbledon), 16, St Georges Road, Wimbledon, S.W., 6.00
Fortune Oil, Hyde Park Hotel, 66, Knightsbridge, S.W., 11.00
Mowlem (John), Cavendish Conference Centre, 18-20, Duchess Mews, W., 12.00
BOARD MEETINGS:
Finals:
Brockhampton
Cafe Inns
Edinburgh Inv Tst
FII
Johnson Matthey
Leigh Interests
London Elec
London Merchant Sec
Martin Currie Euro Invs
Moorgate Smaller Co's Inc Tst
Proteon
Regalian Properties
Scapa
Shelton (Martin)
Southern Water
Interims:
Daily Mail & General Tst
Dewhurst
GWR
Hicking Pentecost
Neotronics Tech
RCO

■ FRIDAY JUNE 14
COMPANY MEETINGS:
Abbott Mead Vickers, Four Seasons Hotel, Hamilton Place, Park Lane, W., 11.00
CIA, 1, Paris Garden, S.E., 10.00
Dewhirst, Merchant Taylors Hall, Aldwark, York, 12.00
Helical Bar, May Fair Hotel, Stratton Street, W., 11.30
Jourdan (Thomas), Unity Works, Sutherland Road, Walthamstow, E., 11.00
Mosthead Insurance Underwriting, Hambros Bank, 41, Tower Hill, E.C., 11.30
BOARD MEETINGS:
Finals:
Capital Gearing Tst
Osborne & Little
Portsmouth & Sunderland
Yorkshire Elec
Interims:
Burndene Invs
[illegible]

Company meetings are annual general meetings unless otherwise stated. Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

FINANCE

Hush-hush world of big portfolio shifts

If you wish to restructure your assets, it is a good idea to carry it out incognito, writes Norma Cohen

In the financial markets, secrets spread faster than the common cold.

So a fund manager wishing to change the balance of a multibillion dollar portfolio faces a big problem: how to do so without a leak of news, or even mere rumours of a switch, which could move market prices against the fund?

The conventional wisdom is that rebalancing a portfolio will cut one to two percentage points of return in the year it is effected. The challenge is to cut that cost significantly.

Big portfolio shifts are still not common in the UK, but the trend is growing.

Earlier this month, Mercury Asset Management won the mandate to restructure up to £10bn in assets of Equitas, the rescue vehicle of Lloyds of London, the insurance market.

In May, the £3bn Lucas Pension Scheme announced that it had completely restructured its asset mix over the previous two months, a move which had been almost completely undetected by the markets.

In the US, several large internally managed schemes, including IBM, Rank Xerox and GTE have restructured their portfolios over the past two years.

A remarkable US switch was last year's move by Fidelity's $60bn flagship mutual fund, Magellan, to cut its shares in technology companies, which at one time comprised over 40 per cent of the portfolio, to a mere 5 per cent. It also aroused controversy, as Magellan's then fund manager, Mr Jeffrey Vinik, made the switch while publicly singing the merits of the sector and one of his high-tech holdings.

Helping execute these shifts is a growing business for a handful of fund managers and investment banks which have begun to specialise in the field.

"When we did the first few, we thought it was a one-off business," says Mr Graham Dixon, director at MAM and a member of its quantitative and derivatives team which has begun to specialise in portfolio transitions.

So just how can you change holdings efficiently? It requires careful planning, good market intelligence, and an ability to throw people off the scent – though most fund managers would eschew the tactic of talking a market up while selling it down.

Mr Alan Rubenstein, who runs the Lucas fund, says that it took over a year of preparation to get his shift in place. At the heart of the reorganisation was a reassessment of the fund's liabilities, which required a move into index-

FUND MANAGEMENT

linked gilts. In addition, the scheme made a judgment that a much greater exposure to overseas equities – particularly those of emerging markets – would earn higher returns over time.

To keep transactions costs down, he invited investment banks Morgan Stanley and Goldman Sachs to compete to carry out programme trades to effect the transition. They are the leading players in London for international programme trades.

More competition was undesirable because it would mean revealing Lucas' plans to a wider audience. "Our view was that the fewer people who knew about it the better," Mr Rubenstein says.

One of the most difficult tasks, he says, was explaining the inactivity of his own trading desk during the two months of the transition. "A lot of people said 'You guys seem awfully quiet,' and we would say that was because we couldn't think of any good ideas at the time."

MAM's Mr Dixon argues that pension funds would be well advised to work with an outside manager, because a change in activity by an internally managed scheme's own trading desk attracts attention.

At MAM, an active participant in the markets on a daily basis, a huge portfolio shift can be easily concealed among the trades of numerous clients, Mr Dixon says.

But MAM also works closely with investment banks and ultimately will choose one or two to take on a client's portfolio for programme trades.

MAM has also worked with other fund managers, particularly with BZW Barclays Global Investments in portfolio switches. BZW-BGI has also made a speciality of managing portfolio transitions and the two firms have been able to arrange stock swaps to their mutual advantage.

Having determined which asset classes are to be bought and sold, MAM minimises the cost of any move in prices against it by hedging in the futures markets. Goldman Sachs and Morgan Stanley similarly used derivatives to smooth the disposition of the Lucas portfolio.

However, Mr Dixon concedes that orderly disposal of some portions of a portfolio remains problematic. For instance, index-linked gilts, an asset class increasingly in demand from pension schemes, are relatively illiquid, and there are no futures contracts available to hedge a position.

But it is unlikely that MAM, BZW-BGI, Goldman Sachs and Morgan Stanley will dominate the market for good ideas. Already, Mr Dixon says, there are signs that others are seeking to cash in on the rising demand for transitional management of investment portfolios.

"It has improved a lot over the past three years," he says. It's getting highly competitive and it's getting very slick."

FACES

Haller reluctantly in the limelight

Ric Haller, head of emerging markets at Deutsche Morgan Grenfell, likes to keep out of the limelight, writes Stephen Fidler. Last week though, after he hired a team of 44 executives from ING Barings' Latin American equities operation, he found himself at the centre of a controversy about predatory hiring practices. He did not like it. It was the talk about huge financial packages for the newcomers that annoyed him. "I've got a reputation for running a tight ship, focused on the bottom line," he says.

Brooklyn-born Haller, 50, has lived in London since 1973, when he was seconded to Libra Bank by Chase Manhattan. The operation was a pioneer in the trading of Latin American bank loans and when it went into oblivion in 1990, Haller and a 60-strong team team of traders moved en masse to Morgan Grenfell, soon after Deutsche Bank had taken it over.

The ultimate test of DMG's latest expansion will, Haller says, be the strength the newly enlarged emerging markets equity business adds to the company's corporate finance and investment banking operations. The hiring may not be over yet.

Going it alone: Howell strikes out

Just as Haller was ducking the limelight, Michael Howell, the emerging markets strategist who joined the exodus from ING Barings last week, was setting out to prove that life really does begin at 40, writes Richard Lapper.

While some of his colleagues appear to have been tempted by DMG's financial packages, Howell's decision had nothing to do with money. Together with Angela Cozzini and Mark Clayton, the two other members of ING Barings' global strategy unit, he is setting up a consultancy producing research on global capital flows and liquidity. The team is leaving on good terms, and expects to keep up a relationship with ING Barings – though the details are still to be negotiated.

Howell, who started as a corporate planner with Blue Circle, quickly gravitated to research, joining Laing & Cruikshank as an equity analyst in 1981 and moving to Salomon Brothers in 1986. He has been with Barings since 1992.

He says lifestyle was one reason for seeking a change. But his decision was also influenced by business considerations. Fund managers, says Howell, are suffering from "information overload" and increasingly value independent and more focused research. The "flow of funds" approach developed by Howell and his team is also, he says, finding growing favour even among US fund managers who dismissed it "out of hand" in the mid-1980s.

Looking on the bright side with Metlife

Life in the post-apartheid world has been relatively unruffled so far for Marius Smith, managing director of Metropolitan Life, the South African insurer, writes Mark Ashurst.

Most insurance companies have the simple aim of protecting policy-holders' assets from an uncertain future. But Metlife – effectively controlled by New Africa Investments (Nail), the country's largest black-owned conglomerate – aspires also to the economic uplift of black South Africans, previously excluded from the formal economy.

At least, that's how it looks to thousands of blacks who have bought new policies from Metlife since Nail, the country's biggest black business, acquired a 10 per cent stake in 1993.

Smith agrees the change in ownership has been good for Metlife's image. Income has topped R2bn ($460m) and its stock price has rocketed from R20 to R56. Last year, Nail increased its holding to 30 per cent to become the biggest shareholder.

But the 56-year-old actuary, whose job security was a precondition of Afrikaner conglomerate Sanlam unbundling its insurance business, has kept quiet about his unlikely role in the vanguard of black empowerment.

Nail could soon acquire Sanlam's remaining stake in the insurer. If that happened, Sanlam's right to appoint the managing director would fall away. Smith would then have to rely on his fellow directors at Nail to fend off criticism from black staff and trade unions that Metlife's lily-white senior management have yet to appoint a black staffer to a top job.

Millennium Man meets his match

Has Sir Peter Levene finally met his match? The celebrated scourge of civil service inefficiency and reputed saviour of London's Canary Wharf property development has just one week in which to help salvage the British capital's Greenwich Millennium exhibition before the entire £500m project is abandoned, writes Christopher Price.

Sir Peter, 55, was called in by the Millennium Commission in February to put together a business plan for the exhibition, and to find a commercial partner for the project.

He first came to prominence in 1985, when he left the defence-related business of which he was chairman, to become chief of UK defence procurement. The poacher-turned-gamekeeper is reputed to have saved the government up to £1bn through the efficiency measures he introduced.

Already well known in the City, he returned to the square mile in 1990 as deputy chairman of Wasserstein Perella, the US investment bank. But within a year, he was back in the headlines – first, as chairman of the London Docklands Light Railway, then as the prime minister's efficiency adviser, and soon afterwards masterminding the rescue of the bankrupt Canary Wharf.

Sir Peter's forthright style, corporate contacts and deal-making reputation were deemed ideal for knocking the Greenwich project into shape. However, problems of funding and questions over the size and viability of the project appear to have been insurmountable.

Last week, Sir Peter was at the side of Michael Heseltine, as the deputy prime minister cajoled the businessmen to "make a leap of faith" for Britain and back the Greenwich project. They have until the end of the week to respond.

Sir Peter Levene and Greenwich site: a week to save the UK's Millennium exhibition

هكذا من الأصل

FINANCIAL TIMES

MARKETS

THIS WEEK

Global investor / **Richard Lapper**

The fruits of privatisation

When the London market closed on Friday, the shares of Forth Ports Authority settled at 605p, more than five times the price at which they were issued when the port was privatised by the British government four years ago.

The stock of AMS Mikro Systeme, a microchip maker sold by the Austrian government in 1993 and 1994, ended last week at ASch1,184, compared with an issue price of ASch336 for the first tranche.

And investors lucky enough to buy shares in Outokumpu – when a part of the Finnish mining company was initially sold to the public in 1988 – have seen the value of their holdings rise cumulatively by about seven times.

As a new publication* on privatisation in western Europe points out, however, such outstanding performances are the exception rather than the rule.

Its authors, Mr Richard Davidson and Mr Markus Rösgen, analysts at Morgan Stanley, the US investment bank, say that "relative to their own domestic markets, privatisation issues have failed to shine in terms of capital appreciation".

Although UK issues have generally held their own against the rest of the domestic market, only in Austria have privatised share issues consistently managed to outperform (see table).

"Taken as a whole, the investor has been a loser more often than he has come out on top," says the report, which updates an earlier study completed in 1993.

Not surprisingly, investor enthusiasm for privatised issues is waning. As a result, governments are becoming increasingly sophisticated in the way they sell privatised issues, especially to retail investors.

For example, simple derivatives giving downside protection to retail investors – such as those used in recent Spanish sales – are likely to become a more common feature of privatisations.

But with European Union governments still battling to reduce fiscal deficits and indebtedness in order to meet the Maastricht criteria for monetary union, the pace of government sell-offs is unlikely to slacken.

Western European governments have raised some $79bn in the past three years alone, with sales climbing to a high of $32.6bn in 1994. Overall, more than $186bn has been raised since 1981, when Mrs Margaret Thatcher launched the UK government's privatisation programme.

The UK accounts for more than half that total, with sales amounting to $96.7bn, but other governments are now more active. Italy was the largest privatiser last year, with sales amounting to $4.96bn, while France sold assets worth $11.75bn in 1994.

The report suggests that assets worth up to $300bn – an amount roughly equal to 1.5 per cent of European gross domestic product – could be sold off over the next five years.

Portugal, which has already sold off nearly $5bn in assets since 1989, has the potential to sell companies whose value exceeds the capitalisation of its entire market, while Austria could raise an amount equal to 40 per cent of the value of its market.

Italy, Spain, Norway, Finland and France will also be particularly active, selling assets equal to between 10 and 20 per cent of their market capitalisation.

One of the most important implications of the broader privatisation trend for investors is the way it is reducing volatility in Europe's equity markets. Many of the companies sold off are from sectors – such as utilities, banks, insurance companies and land-based telecommunications – which typically trade on relatively low price earnings ratios and relatively high dividend yields.

Up to 60 per cent of sell-offs over the next five years are likely to be in the telecommunications and transport sectors, while a further 10 per cent of privatisations will be utilities companies.

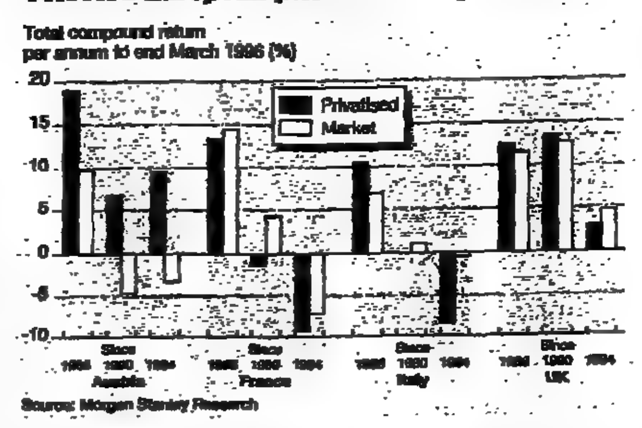
Research shows Europe's privatised companies have historically traded on p/es of 14.8, against an average of 17.3, while dividend yields at present are an average 4.1 per cent for privatised companies against an average for the market as a whole of 3.1 per cent.

The increased weight of bank and insurance stocks will make the market more sensitive to changes in interest rates. But utilities, transport and telecoms companies tend to produce reliable streams of earnings which should ease uncertainty. In short, privatisation is making western Europe's equity markets bigger and more liquid, but also more boring.

**Privatisation: The Second Tranche, by Richard Davidson and Markus Rösgen. Morgan Stanley.*

Selected European privatisations performance

Total compound return per annum to end March 1996 (%)



Source: Morgan Stanley Research

Total return in local currency to 6/6/96

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	0.01	0.07	0.07	0.18	0.12
Month	0.45	0.05	0.28	0.32	0.75	0.58
Year	5.75	1.06	4.49	6.56	10.88	7.00
Bonds 3-5 year						
Week	0.24	0.45	0.35	0.21	0.3	0.84
Month	0.79	1.46	1.07	0.7	1.71	1.54
Year	4.05	2.77	8.59	11.86	20.91	8.43
Bonds 7-10 year						
Week	0.27	0.54	0.52	0.34	0.53	1.25
Month	1.5	2.15	1.51	0.9	2.89	2.18
Year	2.59	2.78	8.41	13.42	28.02	7.51
Equities						
Week	0.4	0.0	1.1	1.2	-0.1	0.3
Month	5.1	-0.7	2.8	2.2	-1.0	0.3
Year	28.2	32.0	18.5	14.1	5.2	15.9

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit.
The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Compiled By AFX News

International calls lift Singapore Telecoms

On Wednesday, Singapore Telecommunications is expected to report full-year net profits to March of about S$1.53bn ($1.1bn), up from S$1.33bn a year earlier, on an increase in international calls and a wider cellular subscriber base.

Revenue from international calls is expected to match, or even exceed, the previous year's growth rate of 7 per cent, despite the impact of a series of rate cuts, including one round in September 1995 and another in January 1996.

The company is expected to report a 20-25 per cent increase in international call volumes, compared with a 20 per cent rise a year earlier, with rising penetration rates and minute usage offsetting rate reductions.

International direct dial call volume was projected to rise 28 per cent to 551m minutes, against an average 13 per cent fall in IDD charges to S$1.95 per minute, said Ms Alayne Wong, analyst at GK Goh Research. "This is good, since SingTel will be feeling the full-year impact of rate cuts but will maintain the growth in international revenue," Ms Wong said.

Singapore Telecom's international rates fell by a weighted average of 5-7 per cent in the year to March 1996, analysts said.

Mr Lawrence Lye, analyst at BZW-Pacific Union, said such cuts did not stimulate significant volume increases, because of the inelastic nature of the international call market.

Mr Lye forecast the company's international revenue would grow 8 per cent to S$1.8bn in the year to March 1996. "The revenue increase will be backed by organic growth," he said, adding that the growth in international traffic would come from calls to OECD nations and China.

AFX Asia, Singapore

Singapore Telecom

Share price relative to the Strait Times Index

Source: FT Extel

■ *Ahold*: The Dutch retailer is expected on Thursday to report net profits of Fl 141m-Fl 150m ($83m), or Fl 1.14-Fl 1.20 a share for its 1996 first quarter, comprising the 16 weeks to April 21. Net profits a year earlier were Fl 119.6m or Fl 1.00 a share.

Ms Desirée Claasen, analyst at F. Van Lanschot Bankiers, expects first-quarter net profit of Fl 141m. In mid-May, Ahold reported consolidated sales in the first 16 weeks of 1995 up 10.9 per cent at Fl 9.5bn. Ahold said at the time it expected to have higher first-quarter 1996 operating results for its operations in the Netherlands, the rest of Europe and the US, while consolidated net earnings would also be higher.

Strongest sales growth in the first 16 weeks of the year was in Portugal and the Czech Republic, where sales were up 40.4 per cent at Fl 524m. In local currency terms, sales in Portugal rose 30 per cent while sales in the Czech Republic more than doubled, Ahold said. The company provided no sales figures for its new supermarkets and Cash & Carry outlets in Poland.

In the US, sales were up 15.8 per cent at $2.8bn, with a virtually unchanged dollar/guilder exchange rate having a negligible impact, while Dutch sales rose 3.1 per cent to Fl 4.4bn, the company said.

Analysts expect operating profits growth in all of Ahold's regions to outpace the sales growth already reported, leading to wider gross margins across the board.

They also expect the US Federal Trade Commission to require Ahold to dispose of some of its Edwards supermarkets in southern New England before it will approve the acquisition of Massachusetts-based supermarket chain Stop & Shop.

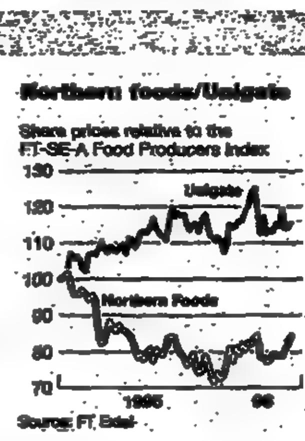
Ms Claasen said such regulatory action could postpone the date of the takeover until after July 31, after which time Ahold has said it will raise its bid for Stop & Shop shares by $1 to $34.50 a share. "A postponement will cost Ahold about $50m, but they seem to be quite willing to pay that price. In the meantime, though, there's really nothing the company can do to hurry the process along," she said.

Ahold is expected to announce details shortly of a share issue to finance the $2.9bn takeover. Ahold said in March when it announced its bid for Stop & Shop that it expected 1996 earnings per share to increase from the 1995 figure of Fl 3.74. Analysts lowered their 1996 earnings per share forecasts for Ahold by about 20 Dutch cents to reflect the effects of the acquisition.

AFX News, Amsterdam

Northern foods/Unigate

Share prices relative to the FT-SE-A Food Producers Index



Source: FT Extel

■ Unigate: The UK food processing and distribution group, is expected to report today moderate growth of underlying profits masked by a raft of exceptional factors. Pre-tax profits for the year should be about £120m ($181m) pre-exceptionals, against £114m a year earlier before £55.1m of restructuring costs. Disposals will lift latest profits by £234.4m offset by a charge of £59.5m for exiting restaurants.

Underlying performance will have benefited from an increase of about £15m in food profits, thanks to French acquisitions, higher butter and milk powder prices, and organic growth. The Wincanton distribution business should be modestly ahead. The dividend should be up about 6 per cent at 20p.

■ Northern Foods is likely to report tomorrow a slip of about £5m in underlying profits to £125m ($188m). Year-earlier figures were distorted by £103.m in provisions. Prepared foods should be up modestly, but underlying dairy profits will be down.

The dividend should be up about 2 per cent to 9p.

■ Electrocomponents is expected to report pre-tax profits between £95m and £99m ($149m) when the UK distributor of electronic and electrical components reports its annual results today. This would equate to a 15 per cent rise on the previous year if profits come in at the top end of expectations.

INTERNATIONAL EQUITIES

Substantial issues from east Europe

By Gavin Gray in Zagreb and Virginia Marsh in Budapest

Several east European companies are lining up substantial equity issues for the second half of this year, after six months of strong international demand but a shortage of supply.

This has lifted secondary market prices, with the Warsaw market up about 50 per cent in dollar terms since the start of the year and the Budapest exchange about 80 per cent higher.

"Global emerging market funds have been driving the growth, but the rise has been less dramatic and more sustainable than it was two years ago," said Mr James Oates, equity analyst at UBS in London. "At that time, most of the money was coming from hedge funds which were more volatile and less committed to the region."

Several new equity funds dedicated to the region were launched in the first half of the year, ensuring substantial demand for new issues.

The most eagerly awaited is the flotation of KGHM Polska Miedz, the principal copper producer in Poland and one of the country's largest foreign exchange earners. The deal is expected to raise at least $600m, and the issue will be launched in the last quarter of this year or early 1997. Powszechny Bank Kredytowy, a commercial bank in Warsaw, is also due to be privatised later this year through a public offering.

The shortage of new offerings on the Budapest market will ease this month with two substantial international issues.

Cofinec, a French-registered regional packaging group based in Vienna, last week launched a global offering to raise about $80m. The offering includes a capital increase as well as sale of shares by some shareholders. It is for more than 60 per cent of the company, which is to be listed on the Budapest and Luxembourg stock exchanges.

"Cofinec is a very attractive proposition, not necessarily from the price point of view but because of its outlook," said Mr Spencer Jakab, equity analyst at CS First Boston in Budapest. "It's in a growth industry and is a regional company, with western management, producing in three central European countries."

The company is regarded as one of the region's first home-grown multinationals. Much of its turnover of $135m last year came from two Hungarian operations, but last month it opened a plant in Poland, its first greenfield project, which is expected to boost turnover to about $200m.

In what will be one of Hungary's and the region's largest ever equity issues, APV, the privatisation agency, is expected to launch an offering for about half of TVK, Hungary's largest chemical company. APV, which is being advised by CS First Boston, hopes to raise some $150m from the sale, which follows a $55m placement for Borsodchem, the country's second chemical company, that was several times oversubscribed. TVK will be one of the largest stocks on the BSE, which now has just 41 company stocks and total capitalisation of $3.5bn.

There is also strong demand for Croatian shares in the wake of the country's first international equity issue, a GDR offering in March for Pliva, the drugs group. The price of Pliva GDRs has risen in the secondary market from an offer price of $18.7 to $30.

UBS is arranging a placement of 10 per cent of Zagrebacka Banka to raise at least $20m. Zagrebacka is the second largest bank in Croatia, with assets of $3.2bn and shareholders' funds of $311m at the end of 1995. Although it recorded a $35m loss last year, the bank's conservative provisioning and strong equity portfolio are expected to be attractive to investors.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International Limited and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 7 1996								THURSDAY JUNE 6 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (79)	201.22	5.9	193.50	138.71	160.53	169.09	-0.5	4.38	199.22	191.68	137.51	158.47	168.53	212.18	182.68	166.53
Austria (25)	193.83	11.1	186.39	[illegible]	154.63	154.58	18.1	1.81	184.94	187.57	134.56	155.07	154.99	199.28	169.11	195.50
Belgium (27)	208.85	-0.1	200.92	144.08	166.69	182.78	7.2	4.09	210.57	202.81	145.35	167.50	163.43	215.81	186.06	194.27
Brazil (28)	164.85	[illegible]	158.53	113.84	131.52	303.22	22.9	2.14	167.03	160.71	115.29	132.86	306.86	171.06	123.97	138.89
Canada (89)	162.81	8.6	156.37	112.09	[illegible]	160.76	9.7	2.37	163.61	157.42	112.93	130.14	161.66	185.12	134.14	140.97
Denmark (33)	294.13	1.9	282.92	202.75	[illegible]	237.00	8.9	1.90	295.23	284.07	203.79	234.85	237.27	306.17	275.65	281.29
Finland (23)	192.26	2.8	184.89	132.54	153.38	190.09	11.5	2.63	195.40	188.02	134.88	155.44	192.76	276.11	171.73	215.83
France (97)	194.32	8.3	186.86	133.85	155.02	158.46	15.1	3.03	197.25	189.79	136.15	156.91	160.50	198.39	167.70	187.65
Germany (60)	169.19	3.4	162.70	116.83	134.98	134.98	10.8	1.85	169.17	162.78	116.78	134.57	134.57	174.38	155.66	157.84
Hong Kong (58)	436.43	12.6	419.67	300.84	348.17	433.70	12.7	3.28	437.26	420.73	301.83	347.83	434.42	451.19	348.81	365.84
Ireland (16)	283.80	11.1	272.90	195.83	226.40	253.13	12.7	3.39	286.37	275.54	197.67	227.80	256.50	288.37	228.88	230.34
Italy (58)	81.29	10.3	78.17	56.04	64.85	94.18	7.8	2.33	82.47	79.35	56.93	65.60	95.38	84.53	67.22	74.67
Japan (481)	152.87	-1.3	147.00	105.38	121.98	105.38	4.3	0.73	153.31	147.51	105.82	121.95	105.82	164.68	137.75	151.58
Malaysia (107)	555.80	14.8	534.55	383.19	443.48	534.70	12.7	1.88	557.46	536.40	384.81	443.46	536.33	585.09	425.77	548.54
Mexico (18)	1260.83	21.7	[illegible]	868.97	1005.88	10367.51	18.8	1.37	1266.00	1218.14	873.88	1007.07	10388.25	1325.65	791.99	960.36
Netherland (19)	295.88	8.5	284.51	203.95	236.04	231.87	16.2	3.11	299.69	288.36	206.87	238.40	234.27	299.69	245.79	249.72
New Zealand (15)	76.14	-4.4	73.22	52.49	60.74	80.35	-6.7	4.55	75.94	73.07	52.42	60.41	80.33	85.49	75.94	82.23
Norway (35)	250.62	[illegible]	241.00	172.76	199.84	223.24	12.8	2.03	253.77	244.17	175.17	201.87	225.42	255.75	221.20	222.57
Singapore (44)	421.89	5.8	405.69	290.82	336.57	273.84	3.2	1.37	423.16	407.16	292.09	336.61	274.80	465.21	355.81	404.64
South Africa (45)	360.23	-6.5	346.40	248.31	[illegible]	343.60	11.9	2.11	362.45	348.75	250.19	288.32	344.89	437.76	338.91	347.64
Spain (37)	176.47	6.8	169.70	121.65	140.78	173.08	14.0	3.21	177.74	171.02	122.69	141.39	174.30	179.85	145.15	147.43
Sweden (46)	354.47	13.6	340.86	244.34	282.78	354.31	15.7	2.40	360.77	347.13	249.03	286.98	360.06	360.77	259.66	264.46
Switzerland (38)	230.41	-2.4	221.56	158.82	183.91	180.84	7.4	1.64	234.11	225.26	161.60	186.23	182.48	252.34	191.24	199.48
Thailand (46)	175.11	4.1	168.39	120.71	139.70	172.38	4.8	1.81	175.69	169.04	121.27	139.75	172.81	193.95	146.74	173.06
United Kingdom (201)	231.82	0.6	222.92	159.80	[illegible]	222.92	1.3	4.17	234.94	226.06	162.17	186.89	226.06	237.43	210.29	217.57
USA (627)	274.34	9.2	263.80	189.10	218.85	274.34	8.2	2.15	274.37	264.00	189.39	218.26	274.37	276.47	215.77	218.03
Americas (772)	250.46	9.4	240.84	172.65	199.61	210.54	9.4	2.15	250.58	241.10	172.97	199.33	210.63	252.49	197.69	199.76
Europe (715)	208.17	3.6	200.18	143.50	166.07	183.55	8.0	3.07	210.62	202.66	145.38	167.54	165.39	211.35	167.21	159.99
Nordic (138)	302.12	9.5	290.52	208.26	241.02	265.44	13.6	2.31	306.61	295.02	211.64	243.90	268.89	306.61	250.62	254.20
Pacific Basin (831)	166.16	[illegible]	159.76	114.34	132.56	116.69	4.8	1.18	166.51	160.22	114.94	132.46	117.11	177.01	148.88	161.49
Euro-Pacific (1546)	183.56	2.0	176.51	126.53	146.44	142.02	6.3	2.08	184.79	177.80	127.55	146.99	142.96	190.57	168.51	173.27
North America (726)	267.42	9.2	257.16	[illegible]	213.34	266.72	9.2	2.16	267.51	257.40	184.65	212.80	266.81	269.52	211.12	[illegible]
Europe Ex. UK (514)	190.16	5.4	182.85	131.08	151.70	159.56	11.9	2.48	192.22	184.85	132.88	152.90	160.81	192.67	168.40	[illegible]
Pacific Ex. Japan (350)	289.09	9.3	277.39	199.28	230.83	249.61	7.1	3.06	288.80	277.86	199.35	229.73	249.81	298.88	243.59	256.94
World Ex. US (1738)	184.91	[illegible]	177.81	127.46	147.52	146.49	6.7	2.08	186.15	178.11	128.49	148.07	147.45	191.55	167.38	175.85
World Ex. UK (2162)	210.74	5.6	202.65	145.27	[illegible]	179.14	8.4	1.91	211.35	203.36	145.89	168.12	179.63	213.05	180.73	184.22
World Ex. Japan (1882)	245.55	7.2	[illegible]	169.29	195.89	233.07	8.8	2.52	246.56	237.24	170.19	196.13	233.91	247.55	205.87	207.89
The World Index (2363)	212.67	5.1	204.50	146.60	169.66	183.31	7.8	2.11	213.48	205.47	147.38	169.82	184.00	214.70	183.83	187.13

 "FT/S&P Actuaries" is a joint trademark of The Financial Times Limited and Standard & Poor's. Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). CONSTITUENT CHANGE DURING THE WEEK ENDING 7/6/96: Name change: Carena Development to Brookfield Properties Corp. (Canada). PLEASE NOTE: Amendments to indices 6/6/96 applied to USA, related regional indices and The World Index.

MARKETS: This Week

NEW YORK By Tony Jackson

Inflation is back on the agenda for the US markets this week, and there will be a lot of data to chew on. While the response of the bond market is predictable, the equity market is a different matter.

Last Friday, strong jobs data for May sent the long bond yield back up over 7 per cent. The Dow, however, lost 80 points and then recovered entirely, suggesting equity investors remain torn between the inflationary threat and the growth promise.

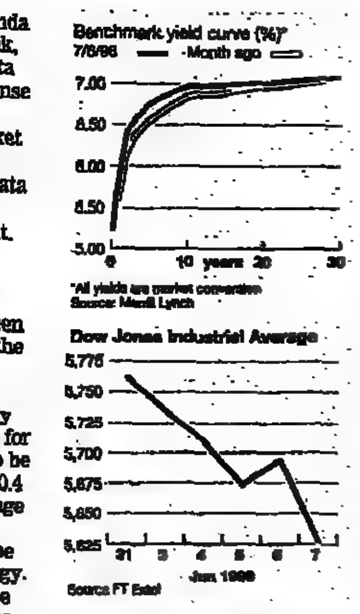
Tomorrow brings the Producer Price Index for May and consumer credit figures for April. The PPI is expected to be roughly in line with April's 0.4 per cent increase, with a range from 0.5 per cent to a slight fall. The rise is expected to be less excluding food and energy.

The other inflationary shoe drops on Wednesday with the May Consumer Price Index. This is expected to be in line with the PPI, suggesting no particular pressure on manufacturing margins.

But the key figure of the week, by Salomon's reckoning at any rate, will be May retail sales on Thursday. After a drop of 0.3 per cent in April, Salomon expects a rebound of 2.0 per cent in May (others expect less), with the strongest element a 3.1 per cent rise in motor vehicle sales.

Friday brings more news from the manufacturing front, with May's industrial production and capital utilisation figures and business inventories for April. Industrial production is expected to grow at a slacker rate than April's 0.9 per cent, while inventories could show a slight rise after a fall in March.

Capacity utilisation should stay broadly constant at 83 per cent. A sharp rise could worry both the bond and equity markets: while manufacturers insist the figure is of declining relevance, it is still taken seriously by the Fed.



LONDON By Philip Coggan

The sharp fall in UK bond and equity markets which followed the publication of Friday's US non-farm payrolls data rather overshadowed what should have been the main event of last week; the quarter-point reduction in UK base rates.

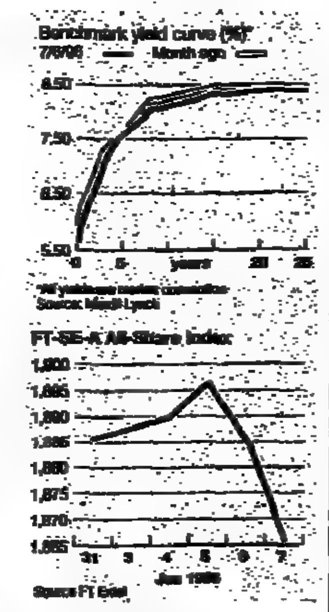
The cut certainly surprised the City, although Kenneth Clarke, the chancellor, has done so before, when he failed to raise rates in May last year. On that occasion, subsequent economic data proved the chancellor right, showing that the economy was slowing and inflationary pressures were subsiding.

The markets will be watching closely to see if he can repeat the trick. Today's producer price data for May will provide an early test, but this week will also see the publication of the retail prices index, unemployment, average earnings, and industrial production and manufacturing output figures.

The natural fear for the gilts market is that the government will take risks on both fiscal and monetary policy in its attempt to get re-elected. Despite the current relatively low rate of inflation, the UK has such a bad record in this field that international investors will be understandably suspicious.

For equities, the emphasis seems to have shifted from takeover bids to the prospect of further paper issuance. No big rights issues have been announced as yet, although some have been rumoured, but last week saw a steady drip of medium-sized cash calls as companies sought to take advantage of the relative buoyancy of the markets.

Corporate results have continued to look solid, and this week, as well as figures from Unigate, Amersham, Granada and NFC, investors will be eager to see what Thorn EMI has to say about its planned demerger.



FRANKFURT By Wolfgang Münchau

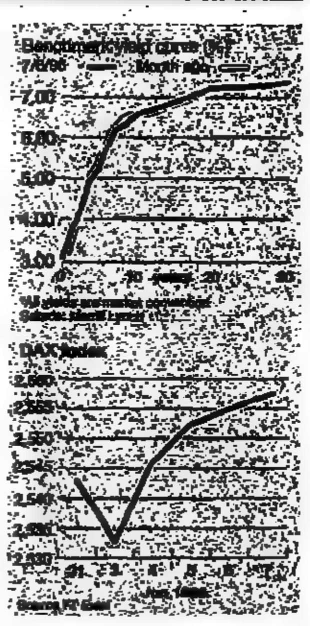
Germany's main hope at present is the much forecast upswing in the second half of the year, after a prolonged period of low interest rates and helped by the relative weakness of the D-Mark against the dollar.

Since the government's tight fiscal policies to satisfy the Maastricht convergence criteria are almost certain to continue, the long-awaited upswing, if it comes, is likely to be modest. It will also be export-driven, and on current forecasts almost inflation-free, with wage inflation and consumer demand remaining subdued. German financial markets are finding the economic scenario relatively unexciting and have taken more than their normal share of cues from Wall Street.

The stock market has continued to move sideways, with the DAX virtually stuck at around the 2,500 mark, although smaller and mid-sized companies are proving a little more attractive than some of the blue chips.

The bond market has looked almost entirely towards the US for the past few weeks, shadowing increasing nervousness about US economic growth and interest rates. While there are no signs of higher inflation and certainly no signs of higher interest rates within Germany itself for some time to come, any rumours of a stronger than expected economic upswing at home or abroad could prove unsettling.

Both stock and bond markets are keenly looking to the Bundesbank for another cut in the securities repurchase rate from its current level of 3.3 per cent. After cutting the discount and Lombard rates quite aggressively, the Bundesbank has been more cautious about the repo rate, clearly hoping to receive a better set of M3 money statistics before risking a cut.



[illegible]

The release of the Bank of Japan's tankan, the quarterly survey of business sentiment, indicated improved confidence among corporations, triggering jitters in the bond market.

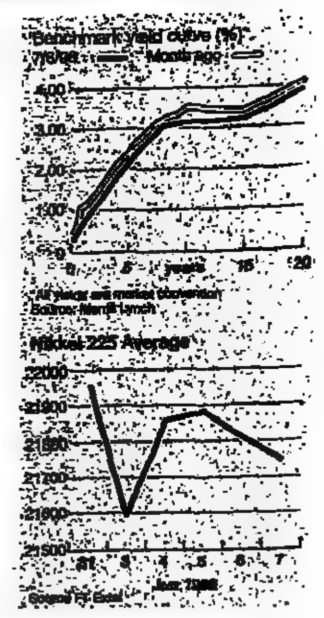
Business confidence improved from minus 12 to a better than expected minus 3 while capital investment plans were also stronger than expected, confirming that economic recovery is in place.

While the authorities will not react immediately in terms of interest rate policy, further evidence of strengthening economic activity is likely to prompt a review.

If economic data remain strong between now and October, "the Bank of Japan will not hesitate to end the current 'emergency' interest rate structure", says Mr Jesper Koll, an economist at J.P. Morgan in Tokyo. He expects the overnight call rate, which is currently kept below the 0.5 per cent official discount rate, to rise to 0.75 per cent by October and to 1 per cent by the end of next March.

Unlike bonds, share prices failed to react to the tankan as investors focused on this Friday's settlement of June futures and the fluctuations on Wall Street. The massive arbitrage balance against June futures is causing concern among some investors, and although much of those positions are being rolled over, selling due to the closing of such holdings could briefly depress the Nikkei.

Activity is likely to be led by technical and speculative trading as institutions remain on the sidelines. Domestic institutions are currently only making small alterations in their portfolios while foreign investors seem to be taking profits. According to the Tokyo Stock Exchange, during the week of May 27, overseas investors became net sellers of Japanese shares for the first time in six months.



COMMODITIES By Richard Mooney

LME to face critics on bail-out

The London Metal Exchange annual meeting this Thursday could be a fairly lively affair.

A recent supply squeeze led the exchange to impose a 1 per cent limit on the cost of carrying forward short positions for one day, and although the board insisted that this was necessary for the maintenance of an orderly market, some traders complained that once again the exchange authorities had acted to "bail out the shorts".

Commodity speculators take out short positions (sell material they have not got) when they believe prices will fall sufficiently for them to come out with a profit when they make covering purchases.

Prices have certainly fallen of late – in the space of just two hours last Thursday an unprecedented 15 per cent was wiped off the value of the LME's three-month delivery copper contract. But at the same time, cash premiums have widened, so the shorts have had great difficulty getting ahead of the game.

So far, the one-day premium has not reached a level where the 1 per cent rule has come into play but last week's extreme volatility suggested that it could happen soon, perhaps just as the LME board has to face critical exchange members who will want to be convinced that its actions have been in the interests of the exchange as a whole, not just the shorts.

As LME traders return from the weekend break, however, the board meeting is likely to be far from their thoughts. Of more pressing concern is the immediate outlook for copper prices after the turbulence that struck the market in the middle of last week.

On Friday, after-shocks were still being felt and the three-month delivery price, which had dipped to $1,900 a tonne on Thursday morning, ranged between $2,110 and $2,265.

Of equal concern was the volatility of the cash premium. Having ended the previous week at about $100 a tonne (against the three-month position), this narrowed to about $50 as prices slumped before widening again to more than $300 at on stage. At Friday's close, it stood at $362.50 a tonne.

OTHER MARKETS Compiled by Michael Morgan

LISBON

Demand is reported to be strong for a secondary global offering of 21.7 per cent of Portugal Telecom, which is to be concluded at a special session of the Lisbon stock exchange tomorrow, writes Peter Wise.

Brokers said demand for the domestic retail tranche was expected to be about nine times greater than the 11m shares on offer.

The main tranche of 26.35m shares, being sold directly to international institutional investors through a book-building system, is estimated to be three times oversubscribed. This means that an option to sell a further 3.95m shares to cover over-allotments is almost certain to be exercised.

The Portuguese government is to fix the offer price today before the new shares begin trading tomorrow in Lisbon, London and New York. The shares, which closed on Friday, at Es3,683 have gained more than 28 per cent since an initial public offer of 27 per cent of Portugal Telecom last June.

PARIS

More AGMs are on this week's agenda. Shareholders of Ecco are expected to approve the merger with Adia of Switzerland at their meeting today while, says UBS, there will be a vote at the Chargeurs AGM on Wednesday on the split between Chargeurs International and Pathé. Among other AGMs, Lyonnaise des Eaux meets on Thursday, and Publicis and Canal Plus on Friday.

Elf, meanwhile, has an important strategic presentation to analysts on Thursday and Friday, which UBS expects to bring news of lower cost reserve additions and downstream cost reductions which should lead to earnings upgrades on the group.

JOHANNESBURG

The Johannesburg Stock Exchange begins fully automated, screen-based trading today, after a three-month transition from the floor-based, open outcry system that has been in place for more than a century, writes Mark Ashurst.

"Some of the excitement and the hype has disappeared; the fund managers can hit all the buttons themselves," said Mr Gareth Griffiths, senior fund manager at BoE NatWest Securities. Brokers' rates have dropped by about 40 per cent, while deals have mushroomed due to the volatility brought by a weaker rand. In the six months to May, 497,000 transactions were recorded, worth R46.5bn, against 782,000 deals worth R63.3bn for all 1995.

"The market is more transparent, there are tighter spreads between bid and offer, and illiquid stocks are trading more often. We no longer depend on personal relationships between dealers who knew where the stock was lying," said Paul Harris, managing director of Rand Merchant Bank's equity trading division.

Liquidity improved to 10.8 per cent in April from 6 per cent a year earlier, helped by a 50 per cent reduction in the marketable securities tax.

HONG KONG

Investors will start the week with an eye to the US following the release of the US jobs data on Friday night (Hong Kong time), writes Louise Lucas. The Hong Kong stock market again tracked Wall Street last week, and brokers expect the trend to continue this week.

Turnover is likely to start thinning as the summer holiday season arrives, but brokers say interest will be buoyed by two forthcoming issues: the infrastructure interests of Cheung Kong, to be spun off in a separate listing which could raise some HK$4bn, and the offering of Asia Satellite Telecommunications, the Hong Kong based satellite consortium. The AsiaSat offering, of more than HK$1.78bn, is due to take place later this month.

The spin-off trend is also spilling over to other smaller stocks, helping to lift share prices. Property and banking stocks have been picking up some of the biggest gains on the back of reduced expectations of an interest rate cut, and the sectors are likely to remain at the fore this week.

CURRENCIES By Philip Gawith

Dollar and sterling to prove the focus of attention

The dollar and sterling are likely to prove the focus of market attention this week as investors come to terms with a raft of US economic data and the surprise fall last week in UK lending rates.

Markets were unsure how to interpret the stronger than expected US payrolls report last Friday. Some analysts felt that the rise in hourly earnings made a tightening in monetary policy by August a likelihood, while others said the Fed would be unlikely to raise rates while the manufacturing sector remained weak.

This week sees the release of industrial production and retails sales figures, as well as inflation data. The real economy figures, in particular, have the potential to influence interest rate sentiment. Strong data may in the short term weigh on the dollar, especially if they cause bond and equity prices to fall. Longer term, the prospect of higher rates will more likely help the dollar.

Mr Dave Munro, chief economist at High Frequency Economics in New York, is predicting an "investor-friendly" set of data. "Next week's headlines ought to lower inflation expectations, though many bond market analysts have been conditioned to fear sustained full employment no matter what."

On Friday, sterling recouped most of the losses suffered after the rate cut on Thursday but it is unlikely the currency markets have asked their last questions of the pound.

Mr Munro's colleague, Mr Carl Weinberg, says it was a "foolish" move. "No one can look at the double-digit growth of domestic credit or the broad monetary supply and argue that a shortage of money or credit is what is constraining growth right now," he said.

He is not alone in his scepticism. J.P. Morgan's risk model "shouts" to sell sterling against the dollar and D-Mark, while Mr Paul Meggyesi at DMG in London believes the whiff of politics behind the rate cut will make investors "less willing to view the UK markets and the pound as a safe alternative for funds being pulled out of other peripheral EMS currencies".

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Avon Energy (US)	Midlands Electricity (UK)	Power	$2.57bn	UK government approves
Coca-Cola Enterprises (US)	Coca-Cola & Schweppes Beverages (UK/US)	Bottling & distribution	$936m	Cadbury Schweppes to sell out
Pakhoed (N'lands)	Univar Corp (US)	Chemicals distribution	$600m	Approved offer
Medeva (UK)	Rochester (US)	Pharmaceuticals	$370m	Buy from RPR
Repsol (Spain)	Astra (Argentina)	Oil	$360m	Controlling stake
Mayflower (UK)	Pullman (US)	Vehicle components	$268m	Gap-plugging buy
Swissair (Switzerland)	Alders International (UK)	Retailing	$242m	Tops new BAA bid
Danka Business Systems (UK)	Leslie Supply (US)	Office equipment	$83.5m	Strengthening network

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, June 7, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7323.07	4750.00	3095.47	4355.60
Albania	(Lek)	153.091	99.3000	64.7116	91.0592
Algeria	(Dinar)	85.4255	55.4100	36.1026	50.8116
Andorra	(French Fr)	8.0146	5.1987	3.3879	4.7673
	(Sp Peseta)	199.589	129.460	84.3662	118.716
Angola	(Read) Kwanza(1)	49001.4	31784.0	20712.9	29146.3
Antigua	(E Carib $)	4.1626	2.7000	1.7595	2.4759
Argentina	(Peso)	1.5396	0.9988	0.6508	0.9157
Armenia	(Dram)	625.544o	405.750	264.418	372.077
Aruba	(Florin)	2.7597	1.7900	1.1665	1.6415
Australia	(Aus $)	1.9478	1.2634	0.8233	1.1586
Austria	(Schilling)	16.6494	10.7997	7.0373	9.9025
Azerbaijan	(Manat)	6706.39o	4350.00	2834.80	3989.00
Azores	(Port Escudo)	244.159	158.370	103.206	145.227
Bahamas	(Bahama $)	1.5417	1	0.6517	0.9170
Bahrain	(Dinar)	0.5812	0.3770	0.2457	0.3457
Balearic Is	(Sp Peseta)	199.589	129.460	84.3662	118.716
Bangladesh	(Taka)	63.5952	41.2500	26.8817	37.8267
Barbados	(Barb $)	3.1006	2.0113	1.3107	1.8444
Belarus	(Rouble)	25075.7o	16265.0	10599.5	14915.2
Belgium	(Belg Fr)	48.8669	31.6900	20.5800	28.9562
Belize	(B $)	3.0834	2.0000	1.3034	1.8340
Benin	(CFA Fr)	801.480	519.870	338.788	476.726
Bermuda	(Bermudian $)	1.5417	1	0.6517	0.9170
Bhutan	(Ngultrum)	53.6512	34.8000	22.6784	31.9120
Bolivia	(Boliviano)	7.8319	5.0800	3.3105	4.6584
Botswana	(Pula)	5.1828	3.3614	2.1905	3.0824
Brazil	(Real)	1.5404	0.9992	0.6512	0.9163
Brunei	(Brunei $)	2.1723	1.4090	0.9182	1.2921
Bulgaria	(Lev)	213.140	138.250	90.0945	126.777
Burkina Faso	(CFA Fr)	801.480	519.870	338.786	476.726
Burma	(Kyat)	9.1276	5.9205	3.8583	5.4292
Burundi	(Burundi Fr)	465.846	302.165	196.914	277.088
Cambodia	(Riel)	3545.91	2300.00	1498.88	2109.12
Cameroon	(CFA Fr)	801.480	519.870	338.786	476.726
Canada	(Canadian $)	2.1048	1.3653	0.8897	1.2520
Canary Is	(Sp Peseta)	199.589	129.460	84.3662	118.716
Cp. Verde	(CV Escudo)	127.915	82.9700	54.0697	76.0844
Cayman Is	(CI $)	1.3122	0.8511	0.5546	0.7805
Cent. Afr. Rep	(CFA Fr)	801.480	519.870	338.786	476.726
Chad	(CFA Fr)	801.480	519.870	338.786	476.726
Chile	(Chilean Peso)	632.984	410.575	267.563	376.502
China	(Yuan)	12.8327	8.3237	5.4244	7.6329
Colombia	(Col Peso)	1655.75	1073.98	699.888	984.846
Comoros	(Fr)	599.471	388.836	253.397	356.569
Congo	(CFA Fr)	801.480	519.870	338.786	476.726
Costa Rica	(Colon)	315.917	204.915	133.539	187.909
Côte d'Ivoire	(CFA Fr)	801.480	519.870	338.786	476.725
Croatia	(Kuna)	8.4700	5.4940	3.5803	5.0380
Cuba	(Cuban Peso)	1.5417	1	0.6517	0.9170
Cyprus	(Cyprus £)	0.7305	0.4739	0.3088	0.4345
Czech Rep.	(Koruna)	43.1015	27.9570	18.2180	25.6369
Denmark	(Danish Krone)	9.1336	5.9245	3.8609	5.4328
Djibouti Rep	(Djib Fr)	246.672	160.000	104.269	146.722
Dominica	(E Carib $)	4.1626	2.7000	1.7595	2.4759
Dominican Rep	(D Peso)	21.3911	13.8750	9.0420	12.7235
Ecuador	(Sucre)	4817.81o	3125.00	2036.49	2865.65
	(Sucre)	4817.81m	3125.00	2036.49	2865.65
Egypt	(Egyptian £)	5.2681	3.4171	2.2268	3.1335
El Salvador	(Colon)	13.4975	8.7550	5.7054	8.0284
Equat'l Guinea	(CFA Fr)	801.480	519.870	338.788	476.726
Estonia	(Kroon)	18.9043	12.2620	7.9909	11.2444
Ethiopia	(Ethiopian Birr)	8.9419	5.8000	3.7797	5.3187
Falkland Is	(Falk £)	1	0.6486	0.4227	0.5948
Faroe Is	(Danish Krone)	9.1336	5.9245	3.8609	5.4328
Fiji Is	(Fiji $)	2.1776	1.4124	0.9205	1.2952
Finland	(Markka)	7.2628	4.7106	3.0699	4.3199
France	(Fr)	8.0146	5.1987	3.3879	4.7673
Fr. Cty/Africa	(CFA Fr)	801.480	519.870	338.788	476.726
Fr. Guiana	(Local Fr)	8.0146	5.1987	3.3879	4.7673
Fr. Pacific Is	(CFP Fr)	145.326	94.2635	61.4295	86.4409
Gabon	(CFA Fr)	801.480	519.870	338.788	476.726
Gambia	(Dalasi)	15.1472	9.8250	6.4027	9.0096
Germany	(D-Mark)	2.3657	1.5345	1	1.4072
Ghana	(Cedi)	2505.34	1627.00	1060.28	1491.99
Gibraltar	(Gib £)	1	0.6486	0.4227	0.5948

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	373.583	242.325	157.916	222.216
Greenland	(Danish Krone)	9.1336	5.9246	3.8600	5.4326
Grenada	(E Carib $)	4.1626	2.7000	1.7595	2.4758
Guadeloupe	(Local Fr)	8.0146	5.1987	3.3878	4.7673
Guam	(US $)	1.5417	1	0.6517	0.9170
Guatemala	(Quetzal)	9.3450	6.0616	3.9502	5.5565
Guinea	(Fr)	1537.07	[illegible]	[illegible]	[illegible]
Guinea-Bissau	(Peso)	27804.5	[illegible]	[illegible]	[illegible]
Guyana	(Guyanese $)	214.142	[illegible]	[illegible]	[illegible]
Haiti	(Gourde)	24.9366	[illegible]	[illegible]	[illegible]
Honduras	(Lempira)	17.2054	[illegible]	[illegible]	[illegible]
Hong Kong	(HK $)	11.9332	[illegible]	[illegible]	[illegible]
Hungary	(Forint)	231.116	[illegible]	[illegible]	[illegible]
Iceland	(Icelandic Krona)	103.602	[illegible]	[illegible]	[illegible]
India	(Indian Rupee)	53.6512	[illegible]	[illegible]	[illegible]
Indonesia	(Rupiah)	3599.10	[illegible]	[illegible]	[illegible]
Iran	(Rial)	4625.10u	[illegible]	[illegible]	[illegible]
Iraq	(Iraqi Dinar)	0.4793o	[illegible]	[illegible]	[illegible]
Iraq	(Iraqi Dinar)	1641.70m	[illegible]	[illegible]	[illegible]
Irish Rep	(Punt)	0.9760	[illegible]	[illegible]	[illegible]
Israel	(Shekel)	5.0381	[illegible]	[illegible]	[illegible]
Italy	(Lira)	2391.84	[illegible]	[illegible]	[illegible]
Jamaica	(Jamaican $)	55.1088	[illegible]	[illegible]	[illegible]
Japan	(Yen)	168.122	[illegible]	[illegible]	[illegible]
Jordan	(Jordanian Dinar)	1.0931	[illegible]	[illegible]	[illegible]
Kazakhstan	(Tenge)	103.517	[illegible]	[illegible]	[illegible]
Kenya	(Kenya Shilling)	89.6552	[illegible]	[illegible]	[illegible]
Kiribati	(Australian $)	1.9478	[illegible]	[illegible]	[illegible]
Korea North	(Won)	3.3147	[illegible]	[illegible]	[illegible]
Korea South	(Won)	1214.17	[illegible]	[illegible]	[illegible]
Kuwait	(Kuwaiti Dinar)	0.4620	[illegible]	[illegible]	[illegible]
Laos	(New Kip)	1419.56	[illegible]	[illegible]	[illegible]
Latvia	(Lats)	0.8509	[illegible]	[illegible]	[illegible]
Lebanon	(Lebanese £)	2429.64	[illegible]	[illegible]	[illegible]
Lesotho	(Maluti)	6.7280	[illegible]	[illegible]	[illegible]
Liberia	(Liberian $)	1.5417	[illegible]	[illegible]	[illegible]
Libya	(Libyan Dinar)	0.5461	[illegible]	[illegible]	[illegible]
Liechtenstein	(Swiss Fr)	1.9518	[illegible]	[illegible]	[illegible]
Lithuania	(Litas)	6.1664	[illegible]	[illegible]	[illegible]
Luxembourg	(Lux Fr)	48.8669	[illegible]	[illegible]	[illegible]
Macao	(Pataca)	12.3211	[illegible]	[illegible]	[illegible]
Macedonia	(Denar)	58.7366	[illegible]	[illegible]	[illegible]
Madagascar	(MG Fr)	5863.49	[illegible]	[illegible]	[illegible]
Madeira	(Port Escudo)	244.159	[illegible]	[illegible]	[illegible]
Malawi	(Kwacha)	23.4365	[illegible]	[illegible]	[illegible]
Malaysia	(Ringgit)	3.8504	[illegible]	[illegible]	[illegible]
Maldive Is	(Rufiya)	18.1468	[illegible]	[illegible]	[illegible]
Mali Rep	(CFA Fr)	801.480	[illegible]	[illegible]	[illegible]
Malta	(Maltese Lira)	0.5524	[illegible]	[illegible]	[illegible]
Martinique	(Local Fr)	8.0146	[illegible]	[illegible]	[illegible]
Mauritania	(Ouguiya)	211.982	[illegible]	[illegible]	[illegible]
Mauritius	(Maur Rupee)	30.3715	[illegible]	[illegible]	[illegible]
Mexico	(Mexican Peso)	11.5967	[illegible]	[illegible]	[illegible]
Miquelon	(Local Fr)	8.0146	[illegible]	[illegible]	[illegible]
Moldova	(Leu)	7.1394	[illegible]	[illegible]	[illegible]
Monaco	(French Fr)	8.0146	[illegible]	[illegible]	[illegible]
Mongolia	(Tugrik)	719.465	[illegible]	[illegible]	[illegible]
Montserrat	(E Carib $)	4.1626	[illegible]	[illegible]	[illegible]
Morocco	(Dirham)	13.5706	[illegible]	[illegible]	[illegible]
Mozambique	(Metical)	17175.3	[illegible]	[illegible]	[illegible]
Namibia	(S A Rand)	6.7280	[illegible]	[illegible]	[illegible]
Nauru Is	(Australian $)	1.9478	[illegible]	[illegible]	[illegible]
Nepal	(Nepalese Rupee)	88.3737	[illegible]	[illegible]	[illegible]
Netherlands	(Guilder)	2.5485	[illegible]	[illegible]	[illegible]
N'nd Antilles	(A/Guilder)	2.7597	[illegible]	[illegible]	[illegible]
New Zealand	(NZ $)	2.3013	[illegible]	[illegible]	[illegible]
Nicaragua	(Gold Cordoba)	12.7855	[illegible]	[illegible]	[illegible]
Niger Rep	(CFA Fr)	801.480	[illegible]	[illegible]	[illegible]
Nigeria	(Naira)	33.9174o	[illegible]	[illegible]	[illegible]
	(Naira)	129.886m	[illegible]	[illegible]	[illegible]
Norway	(Nor. Krone)	10.1176	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Oman	(Rial Omani)	0.5930	0.3850	0.2509	0.3530
Pakistan	(Pak. Rupee)	53.7516	34.8651	22.7206	31.9717
Panama	(Balboa)	1.5417	1	0.6517	0.9170
Papua New Guinea	(Kina)	1.9803	1.2846	0.8371	1.1779
Paraguay	(Guarani)	3145.07	2040.00	1329.42	1870.70
Peru	(New Sol)	3.7639	2.4345	1.5865	2.2325
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Special Drawing Rights June 6, 1996 Utd Kingdom £0.934740 Utd States $1.44249 Germany DM N/A Japan Y157.894 European Currency Unit Rates June 7, 1996 [illegible]

Abbreviations: (o) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate [illegible]
Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. [illegible]
To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls [illegible]
Friday, June 7, 1996

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EMERGING MARKETS By Gavin Gray

Dadas scandal slows Slovenia

Until mid-March, the Ljubljana stock market was rising comfortably, if comparatively quietly, in the wake of Warsaw and Budapest with a gain of about 14 per cent this year; but its calm was illusory.

Having peaked at 1,589.18, the SBI index of Slovenian equities went into free-fall when the country's securities market agency launched an investigation into Proficia Dadas, the fund management arm of the brokerage house, Dadas, alleging that it was using its four funds to manipulate stock prices.

This was the first investigation of its type: the SBI dropped 37.5 per cent in two months, reaching a low of 994.42 in mid-May. There has been a recovery since, but the Dadas scandal figured again last week when the SBI dropped by 4.9 per cent on Thursday and by 15.92, or 1.5 per cent, to 1,054.67 on Friday.

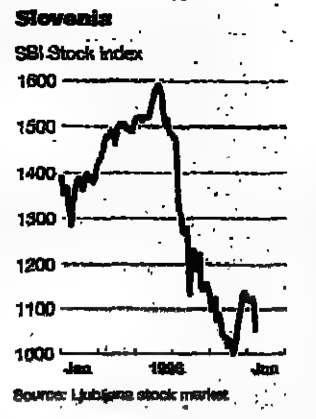
Some professionals accentuate the positive. "This is all probably good for the long run," says Mr Gregor Kastelic, an equity analyst at Creditanstalt. "This market is mainly driven by brokers investing on a very short-term basis. For foreign investors, it is good to know that there is an institution in Slovenia that performs a monitoring role."

Since Dadas is not only the top broker in Slovenia, but also one of five companies listed on the exchange's A quotation, the scandal has touched the heart of the financial establishment. Its shares accounted for 23 per cent of equity turnover last year. The agency's investigation is not complete and uncertainty prevails.

It was not always thus. Ljubljana, the capital of Slovenia, was one of the first cities in eastern Europe to open a stock exchange; and this year, the market had begun to attract the attention of international investors, their interest coinciding with the listing of the first of over 100 industrial companies privatised through public offerings. These included most of the large manufacturing companies and exporters that were the foundation for 5 per cent economic growth rates in the country in both 1994 and 1995.

Slovenia was the most developed republic in Yugoslavia and became an independent country in 1991 after a short war. GDP per capita was estimated at above $7,000 in 1995, nearly double the Hungarian level and not far behind Portugal and Greece.

The equity market suffered in 1994 and 1995 because the central bank issued large volumes of short-term paper which drained liquidity. Lack of legislation has been another problem. Although a securities law was introduced in 1994, the government has failed to introduce legislation on mergers and acquisitions, although this was promised two years ago.



Source: Ljubljana stock market

The biggest problem for the exchange has been Slovenia's approach to privatisation and the numerous delays involved. The country's voucher-based scheme provided employees with great incentives to buy shares; most small and medium sized companies were sold through buy-outs.

Just over 100 of the larger companies also chose to issue stock publicly, but they did so when they realised that their employees would not be able to purchase all the stock on offer. Most of the shares in the IPOs were sold to individual investors in exchange for privatisation vouchers, which are not tradeable, or in some cases also cash; foreign investors were specifically excluded.

At the end of last year, none of the privatised companies had yet begun trading. Of the 13 companies on the main market and six stocks traded over the counter, there was a plethora of financial institutions and companies in the service sector; trading was often very light and prices could move sharply with the sale of a handful of shares.

"We have had a very sophisticated computer system for some time and dematerialisation, but simply not enough stocks to trade," said Mr Drasko Veselinovic, president of the exchange.

The ice broke in January, when Kolinska, a food processor, elected to have its shares quoted on the exchange's B listing. OTC trading has also begun in Sladkorja Ormoz, a sugar mill; Slovenijales, a diversified trading company; Kompas Hoteli Kranjska Gora, a ski resort; Lesnina Emmi, a manufacture of wood products; and Mercator, a supermarket chain. With consolidated sales of just under $1bn, Mercator is now by far the largest company traded on the market.

Two more companies are due to begin trading this week. Droga, a producer of tea, coffee, spices and other food products, will join Kolinska on the exchange's B listing. Some 40 per cent of its stock was issued in the public offering. Pinus, a chemical producer, will begin trading on the OTC market. Mr Kastelic expects another 15 companies to come to the market in the second half of this year.

There has been one serious attempt to sell Slovenian equity to foreign investors. In 1994, the European Bank for Reconstruction and Development (EBRD) and institutional investors took a minority stake in SKB Banka, Slovenia's second largest bank, and still the largest company on the main listing with a capitalisation of $80m. The shares trade offshore in the form of depositary receipts issued by Merrill Lynch.

This year, the newly-traded privatised companies have held their price levels because there has been little selling by retail investors. But since most of these stocks are traded over the counter, this has not been reflected in movements in the SBI stock index.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	7/6/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (395)	161.19	-1.03	-0.63	-0.44	-0.27	+13.63	+9.24
Latin America							
Argentina (22)	102.08	-1.13	-1.10	+3.73	+3.79	+9.31	+10.03
Brazil (23)	222.10	-3.38	-1.50	+10.73	+5.08	+36.00	+19.35
Chile (16)	178.85	-1.49	-0.83	-10.09	-5.34	-36.81	-8.59
Colombia (14)	166.88	-3.12	-1.84	-9.92	-5.61	+2.64	+1.60
Mexico (23)	85.53	-1.27	-1.48	+1.82	+2.17	+11.93	+16.21
Peru(14)	1,033.38	-7.82	-0.75	-28.59	-2.65	-35.57	-3.33
Latin America (112)	136.70	-1.81	-1.31	+2.62	+1.96	+13.56	+11.01
Europe							
Greece (18)	108.55	-2.13	-1.96	-0.19	-0.18	+8.58	+8.76
Portugal (20)	128.00	-2.11	-1.62	+2.43	+1.93	+11.54	+9.91
Turkey (26)	116.53	+8.41	+7.78	+5.30	+4.76	+33.73	+40.74
South Africa (32)	146.18	-1.69	-1.14	-0.65	-0.45	-7.19	-4.69
Europe (96)	123.01	-0.38	-0.31	+0.07	+0.06	+1.48	+1.22
Asia							
China (24)	44.15	-0.56	-1.24	+0.01	+0.03	+3.83	+9.49
Indonesia (32)	150.36	-2.16	-1.42	-1.95	-1.28	+11.71	+8.45
Korea (23)	124.94	-1.74	-1.37	-19.41	-13.45	-11.97	-8.74
Malaysia (24)	258.58	+0.28	+0.11	-2.39	-0.91	+31.21	+13.73
Pakistan (14)	96.34	+2.43	+2.66	+3.24	+3.48	+22.75	+30.91
Philippines (14)	337.41	+0.65	+0.19	+25.47	+8.16	+78.28	+30.19
Thailand (25)	249.58	-5.80	-2.27	-11.48	-4.40	-2.23	-0.88
Taiwan (31)	164.31	+3.43	+2.13	-1.73	-1.04	+33.49	+25.60
Asia (187)	226.67	-0.42	-0.18	-5.26	-2.27	+23.63	+11.64

All indices in $ terms. January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Conner Middelmann and Samer Iskandar

Revival seen in sterling sector despite political uncertainty

The euro-sterling sector – until recently the Cinderella among eurobond currencies – has undergone a veritable transformation in recent weeks.

"We saw sterling emerge from being a peripheral currency on the edge of Europe to one of the busiest sectors [last] week," said a syndicate manager at a UK house.

Last week's offerings were a mixed bag of UK institutional-targeted deals – such as a £250m 10-year offering for PowerGen or a £200m 10-year offering for Northumbrian Water – and European retail offerings – including a £150m 3¼-year transaction for Toyota Motor Credit Corp and £100m of 2¼-year bonds for Rabobank Nederland.

Volume last week amounted to £1.24bn of new bonds, nearly double the £750m issuance of the previous week – which itself was significantly more than usual.

In the year to date, some £20.9bn of sterling bonds have been issued in the international bond market, including asset-backed and equity-linked paper, numbers published by Euromoney Bondware show. That's nearly as much as last year's total of £21.4bn.

"There is a growing perception by borrowers in the euro-sterling market that the investor base does not just consist of UK institutions," said another syndicate manager.

"We have seen a lot of continental European demand on the back of the stronger currency, and that's inspired several aggressively priced, arbitrage-driven deals which UK institutions don't usually buy," he added.

European retail investors, on the other hand, are more name and currency-sensitive but care less about yield spread and are willing to buy relatively tightly-priced issues, he said.

Some borrowers that were deliberately absent from the market for several months now feel the time is right to return.

CCCI, the financing arm of Crédit Immobilier de France, had planned an issue earlier this year but changed its mind in favour of D-Marks at the last minute. It has recently revived its initial plans and will raise around £200m in the coming weeks.

The deal is not arbitrage-driven, but "market conditions are good", said Mr Arnaud Scuderoni, financial director of CCCI, "there is strong demand".

Mr Scuderoni is also attracted to the sterling market because he feels the "investors are sophisticated ... which should allow [CCCI] to achieve a more efficient pricing" than in other sectors.

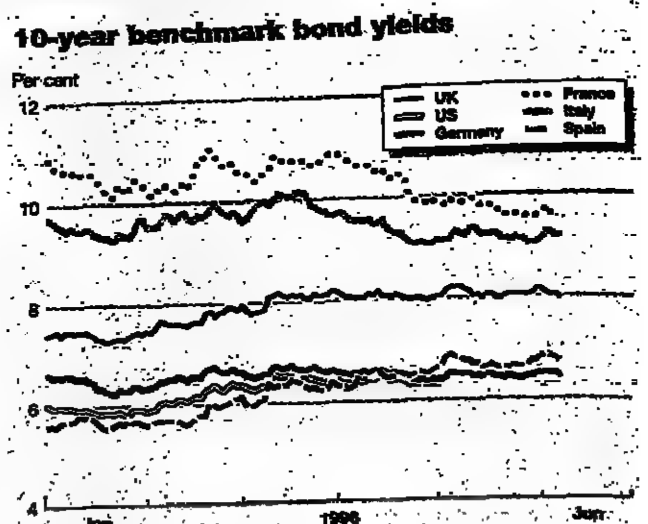
The flurry of recent sterling issues has made some bankers worried that the sector may be close to saturation point. "The market's got to be careful – it's close to oversupply," warned one syndicate official.

While recent triple-A rated, retail-targeted deals had gone well, others had been slower to get placed, he noted, adding: "People should stick to doing quality issues."

However, in view of the pound's resilience following Thursday's rate cut and the continuing perception among many investors that the UK will continue benefiting from low-inflationary growth, many traders said they expect sterling eurobond issuance to continue at its present pace.

"The market is in great shape and can absorb more supply," said one dealer.

10-year benchmark bond yields



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.90†	9.00	5.75*
Overnight	5.19	0.44	3.25	3.70	9.00	5.75
Three-month	5.26	0.50	3.27	3.83	8.65	5.88
One year	5.87	0.67	3.37	3.87	8.85	6.19
Five year	6.77	2.30	5.25	5.58	8.93	7.56
Ten year	6.96	3.24	6.55	6.53	9.80	8.07

(1) France Repo rate (2) UK Base rate. Source: Reuters

The recent revival witnessed in the gilt market reinforces the bullish sentiment. The 10-year yield spread of gilts over bunds traded down to 169 basis points last Friday, its lowest level in more than three months and 5 basis points below its average over the last six months.

"The fundamentals are favourable," said Mr Simon Briscoe, an economist at Nikko in London, who expects gilts to outperform other markets over the next 6 months.

Mr Briscoe expects inflation to decline and points to the UK's "stable, moderate and non-inflationary growth". At around 8.2 per cent, he believes yields on long maturity bonds are "very attractive" and should rally to "around 8 per cent as inflation falls".

This bullishness, however, is not unanimous. Political uncertainty – and fears of over-supply to a lesser extent – can still weigh on the market.

Mr Nigel Richardson, head of bond research at Yamaichi, attributes the recent underperformance of sterling bonds to "political uncertainty being factored in".

Mr Richardson believes that last Thursday's cut in UK base rates was politically motivated and he warns that "when politics gain influence in monetary matters, there is cause for concern" for the bond markets.

Furthermore, although the public-sector borrowing requirement appears to be "under control and improving," Mr Richardson believes over-supply "can become a problem in an election year."

Mr Ian Shepherdson, UK economist at HSBC Markets, is bullish on sterling bonds but he also expects the forthcoming general election to hinder the market's performance.

Mr Shepherdson predicts that the rate of underlying inflation will fall below 2.5 per cent.

A yield premium of "170 basis points [over 10-year bunds] is absurd in a low inflation economy", he said, which gives sterling bonds scope to outperform other markets in the short term, but only in a limited manner.

The "real performance can only take place after the election is out of the way", he said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Federal Home Loan Bank(a)‡	200	Jun 1999	(a1)§	100.00R	-	-	Morgan Stanley Intl
Kredietbank Intl Finance(b)	200	Dec 1998	6.50	99.989R	6.53	+15(6%-98)	Nikko Europe
Rabobank Nederland(c,d)	100	Dec 1998	6.25	99.08R	6.585	[illegible]	Daiwa Europe
Compagnie Bancaire‡	500	Jun 2001	(e,d)	99.812R	-	-	Citibank/HSBC Markets
Petroleos Mexicanos	300	Jul 1998	8.00§	99.714R	8.156	+190(6%-98)	Deutsche/JP Morgan
Bayerische Hypo	200	Jul 1999	6.625	99.811R	6.697	+15(6¾%-99)	ABN Amro/Bear Stearns
Abbey Natl Treasury Services	200	Jul 1998	6.375	99.84R	6.463	+12½(6%-98)	SBC Warburg
Providian Series 1996-1(f)‡	750	Jan 2003	(f1)	100.00	-	-	Lehman Brothers
Cie Financière de CIC(h)‡	200	Jun 2002	(h1)	99.965R	-	-	Sanwa International
GECC(g)	200	Dec 1998	6.125	99.69R	6.268	-5(6%-98)	UBS
Christiania Bank(m)‡	150	[illegible]	(m1)	99.764R	-	-	SBC Warburg
Abbey Natl Treasury Services	75	Jul 2000	(n)	99.69R	6.72	+21½(6½-00)	Kredietbank Intl Group
Federal Natl Mtg Assoc(v)★	200	Jun 1998	(v1)	100.00R	-	-	[illegible]
Advance Agro(A)§	80	Jun 2001	3.50	100.00	-	-	Salomon Brothers Intl
D-MARKS							
Kingdom of Sweden	750	Jul 2001	5.375	99.64R	5.459	+20(5¼%-01)	Daiwa/Deutsche MG
Sony Europa Finance(s)	100	Dec 1999	4.75	101.70	-	-	Merrill Lynch Bank
CCDG(o)‡	100	Apr 2000	(o1)	100.11	-	-	DG Bank/Merrill Lynch
YEN							
Sumitomo Bk Intl Fin(s,o)§	100bn	May 2001	0.75§	100.00	-	-	Goldman Sachs
L-Bank(f,s)★	25bn	Jun 1999	5.20	100.00	5.20	-	Daiwa Europe
Spintab★	12bn	Jun 2001	2.80	100.20	2.557	-	Tokyo-Mitsubishi Bank
Merrill Lynch & Co(B)★	15bn	Jun 2001	2.70	100.30	2.635	-	Merrill Lynch Intl
SWISS FRANCS							
Kanematsu Electronics(u,s)★§	80	Jan 2020	0.125§	100.00	-	-	Nikko Bank(Swiss)
Bayerische Hypo(s)★	100	Dec 1998	3.30	101.30	-	-	Credit Suisse
STERLING							
[illegible]	100	Dec 1998	7.00	99.8871R	6.618	+25(7¼%-98)	NatWest Capital Mkts
NPI Finance(g,l)	100	undated	9.625	99.489R	9.705	+140(7½%-06)	Dresdner/SBC Warburg
Toyota Motor Credit Corp(s)	150	Dec 1999	7.25	99.814R	7.333	+10(8%-99)	BZW
Hammerson(q)§	100	Jan 2006	6.50§	100.00	-	-	Goldman Sachs Intl
Powergen	250	Jul 2006	8.50	98.145R	8.851	+46(7½%-06)	BZW/HSBC Markets
Kingdom of Sweden(w)	100	Dec 1998	7.00	100.183R	6.881	+27(7¼%-98)	Lehman Brothers Intl
CAR, Class A(C)‡	240	Jan 2001	(C1.a)	99.915R	-	-	BZW
Northumbrian Water	200	Jun 2006	8.625	99.325R	8.728	+58(7½%-06)	BZW
GUILDERS							
Bayerische Hypo(s)	200	Nov 1999	4.75	99.75R	4.84	+15(7½%-99)	ABN Amro Hoare Gvtt
Ned Waterschapsbank(s)	300	Jan 2007	6.625	99.646R	6.680	+16(8¼%-07)	ABN Amro Hoare Gvtt
KfW International Finance(s)	300	Dec 2000	5.00	99.68R	5.089	flat(9¼%-00)	SBC Warburg
Bayerische Landesbank(i)	300	Jul 2000	4.75	99.22R	4.970	+3(9%-00)	ING Barings
Rabobank Nederland(D)	500	Aug 2018	(D)	97.00	7.02	-	Rabobank Nederland
Nederlandse Waterschapsbank	300	Jun 2006	zero	52.20R	6.717	+33(8½%-06)	ING Barings
AUSTRALIAN DOLLARS							
Queensland Treasury Corp★	100	Jun 1999	4.60	91.61	7.740	-	Nomura International
BMW Australia Finance	100	Jul 2001	9.00	101.85	8.530	-	Deutsche Morgan G'fell

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
FRENCH FRANCS							
Crédit Local de France	3bn	Jul 2002	6.00	100.058	5.990	+19§	BNP/Merrill Lynch
Eurofer International	800	Jul 2006	6.875	99.60R	6.932	+40§	CNCA
Lehman Brothers Holdings	600	Jul 1998	5.375	99.929R	5.401	+48§	Soc. Lehman Brothers
Groupe Danone(z)	2bn	Jun 2004	6.50	99.846R	6.525	+23§	BNP
Saint Gobain Nederland	2bn	Jul 2001	5.625	99.228R	5.786	+21§	CNCA/JP Morgan
Nedis No 2, Class A1(C)	1.41bn	Jan 2000	5.40§	99.854R	5.441	+24§	CCF/Morgan Stanley
Nedis No 2, Class A2(C)	[illegible]	Jan 2001	[illegible]	[illegible]	[illegible]	[illegible]	CCF/Morgan Stanley
LUXEMBOURG FRANCS							
Oresund Consortium	3bn	Jul 2003	(t)	102.95	6.72	-	ISL
DSL Finance	3bn	Jul 2001	5.50	102.13	5.003	-	ABN Amro Lux/BGL
GenFinance Luxembourg	3bn	Jul 2003	(t)	102.50	6.42	-	BIL
Argenta Nederland	3bn	Jul 1999	4.50	100.00	4.50	-	BCEE
ITALIAN LIRE							
Dresdner Finance	250bn	Jul 2001	(t)	101.875	-	-	BCI/BNL/JP Morgan
ABN Amro Bank	250bn	Jul 1999	8.25	100.955	7.860	-	IMI Lux/San Paolo
World Bank	200bn	Jul 2001	(t)	100.00R	-	-	Credito Italiano
PESETAS							
De NIB(y)	10bn	Jul 2001	(y1)	100.00	-	-	BBV/Citibank Espana
CANADIAN DOLLARS							
Bayerische Hypo(s)	100	Dec 1998	6.75	99.80R	6.864	+7(7¼%-98)	Toronto Dominion Bank
World Bank	100	Dec 1999	6.50§	100.60	6.334	-	RBC/Nesbitt Burns
ESCUDOS							
Xunta de Galicia	10bn	Jul 2001	(x1)	100.00	-	-	Banco Chi
NEW ZEALAND DOLLARS							
World Bank	100	Jul 1999	9.00	101.075	8.579	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ... R: fixed re-offer price ... Callable ... every 5 yrs at par. If not called, new bonds are couponed at higher of current rate or 240bp over 5-yr gilts. h) 6-mth Libor -10bp. i) Over interpolated yield. j) Legal maturity: 15/8/07. l) 1-mth Libor +17bp. k) Callable from June 2000 at par. k1) 3-mth Libor +12½bp. l) Long 1st coupon. m) Callable from June 2003 at par. m1) 3-mth Libor +37½bp to June 2003, then +112½bp. n) 5% to 17/7/98, then 6½%. o) Fungible with DM250m. Callable in Apr 1998 at par. o1) 3-mth Libor +10bp. p) Oeffentliche Pfandbrief. q) Conv price: 435.8p. Callable after 5 yrs at par. 15% cleanup call. r) 5½% to 10/7/01, then 7% to 10/7/03 and then 9%. s) Short 1st coupon. t) Callable on 3/7/98 at par. t1) 6⅝% to 3/7/98, then 9.20%. u) Conversion price: Y2,255. Mandatory exchange with floor of Y850. Exchange price reset downwards annually with 50% floor. 50% of outstanding notes callable at yr 4. v) Callable on 10/6/97 at par. v1) 6.45% to 10/6/97, then 7.10%. w) Fungible with £250m. Plus 183 days accrued. x) Originator: Cetelem. Underlying assets: personal loans. Legal maturity: 26/12/02. x1) Class B: FFr194.88m, av life 4.75 yrs, 99.58R, +48bp. y) Callable on 9/7/98 at par. y1) 7.72% to 9/7/98, then 8.40%. z) Includes FFr500m increase at 99.878R. A) Conversion price: baht 72.90. FX: 25.365 baht/$. Callable from 14/6/99 subject to 140% hurdle. Redemption price: 130.316%. Greenshoe: 15%. B) Also issued: Y2bn, 3 yr, 1.78%, 100.20%. C) Chester Asset Receivables. Backed by credit card receivables originated by MBNA Intl Bank. Legal maturity: 15/5/03. C1) 3-mth Libor +10bp. C2) Class B: £10m private placement. D) No interest until 2014. Five payments of Fl 750 per Fl 1000 nominal beginning 7/8/14, representing interest and principal. Note: Yields are calculated on ISMA basis.

TELECOMMUNICATIONS IN BUSINESS

Tough decisions for telecoms managers

Radically new products and services are on the way which promise better ways of doing business. Selection will become even more difficult for telecoms executives. Alan Cane reports

The telecommunications business provides incontrovertible proof of the effectiveness of competition in forcing down prices and broadening options for customers.

Telecoms managers working in countries where telecoms markets are open are spoilt for choice compared with their counterparts in more restrictive regions. In the past 12 months, a number of events have conspired to widen that choice still further, while making choice and selection even more complicated for telecoms executives.

First, a global pact on telecoms liberalisation could be in place by the beginning of 1998 after the 53 nations involved in World Trade Organisation talks decided to postpone the deadline for agreement until February next year. According to the US-based Institute for International Economics, an accord could save telecoms customers in developed and developing countries more than $1,000bn over the next 12 years in lower charges, better service and more advanced technology.

January 1, 1998, is also the date when telecoms services and infrastructure across the European Union should be opened to full competition, with the prospect of lower prices for all European customers. At present, a national long-distance call in Germany, where Deutsche Telekom retains its monopoly, costs 78p for three minutes, while in the fully liberalised US and UK the same call costs 37p and 19p respectively.

Second, President Bill Clinton opened the floodgates for change in the US when he signed the 1996 Telecommunications Act, a document which tore down the competition barriers between local, long-distance and cable television operators. Every residential and business user of communications will be affected by the legislation which essentially allows more companies to compete in more US telecoms markets.

Immediate responses to the threat of increased competition have been seen in the mergers of SBC Communications and Pacific Telesis and Bell Atlantic and Nynex, all "Baby Bell" regional operating companies.

MFS, a US-based business telecoms operator, says: "The challenge for users will be to decide which services and features are most important to them and then to identify the provider that can best serve their needs. Providers will differentiate themselves by emphasising the strengths they can offer such as the benefits of diversity among suppliers, back-up protection through redundancy or simplicity through streamlined and consolidated service offering."

National Utility Services, an international cost control service, noted that competition drove international call prices down 35.7 per cent last year in the US but that customers were not necessarily experienced enough to take full advantage of the decline:

"As competition continues to force prices down, both consumers and suppliers are looking for simpler charging formulas, such as pegging costs to a flat rate rather than varying charges based on the time of day.

"There was a strong push towards individually negotiated contracts. Although in the past this was only open to large users, smaller business users who may only have a $3,000 spend are now able to capitalise on these arrangement," says the cost control service.

It warns: "The bottom line is that while most end-users are able to negotiate their contracts, few fully understand the ground rules or how to negotiate the most successful contract terms and conditions."

Third, in a sharp change of strategy, some of the world's largest telecoms operators, among them AT&T of the US and British Telecommunications of the UK, are offering low-cost access to the Internet, the global network of computer networks.

Most telecoms operators offer business Internet access already; the significance of the new move lies in the implication that the operators are taking seriously the threat of Internet telephony – voice communication across the Internet – which could seriously damage their long-distance and international revenues.

In the longer term, multi-billion-dollar satellite projects are in progress which by 2000 could see business people able to keep in touch at reasonable cost using a mobile phone from virtually any point on the Earth's surface. One of the consortia planning such a system, the London-based ICO Communications, expects initial handset prices of about $1,000 with calls charged at $1 or $2 a minute.

In addition to developments designed to cut the costs of telecoms, radically new products and services are available or in the pipeline which promise new and better ways of doing business. Telecoms operators, faced with declining growth in revenues from traditional services, are anxious to promote these new products and persuade their customers that price alone is not the best criteria for choosing a supplier.

The products include videoconferencing – which has now fallen dramatically in cost, with the availability of powerful semiconductor chips – and computer integrated telephony – computer databases linked to telephone systems – which has found its most immediate use in call centres.

These complex applications require transmission systems capable of delivering substantial quantities of data which explains the current interest in integrated services data network (ISDN) lines and frame relay technology.

Most businesses, however, are at an early stage in evaluating these possibilities. According to a study in the UK by the management consultancy Newburn Consulting, telecoms is seen as integral to business development by most companies but remains a cost to be controlled and reduced wherever possible. Newburn found that six out of 10 companies believed their telecoms strategy was designed to "improve customer service", while four out of 10 believed their role was to "create cost efficiency improvements".

It identified four kinds of telecoms users:

- First: telecoms-propelled organisations which place a high value on telecoms and IT and spend commensurately;
- Second: frustrated visionaries with fine strategies but no funds to back their ideas;
- Third: reluctant investors who place little value on telecoms and IT but are still prepared to make big investments where necessary; and
- Fourth: the unconverted who neither believe in, nor invest in, telecoms.

Newburn's analysis of telecoms strategy in the companies it examined is particularly interesting. It suggests that companies are facing the same kind of dilemmas over strategic investment in telecoms that they faced in computers and information technology in the 1980s: "On the evidence of this survey of leading users of telecoms and information technology, less than half have strategy and investment plans and budgets aligned in pursuit of consistent business goals."

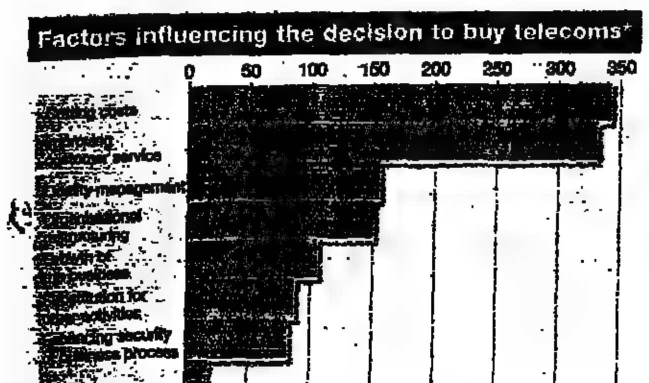
Newburn says that what a company declares to be important in terms of its telecoms strategy and how it spends its telecoms dollars do not always match.

The excitement in the 1980s over IT was stoked by consultants who recognised the power of the new technology but did not always appreciate organisations' difficulties in exploiting it. One of the more thoughtful, Mr Peter Keen, chairman of the International Centre for Information Technologies, explained the problem in a recent article:

"The IT field was talking mainly to itself... the dialogue was among IT people, not from IT to business managers and leaders of business thought."

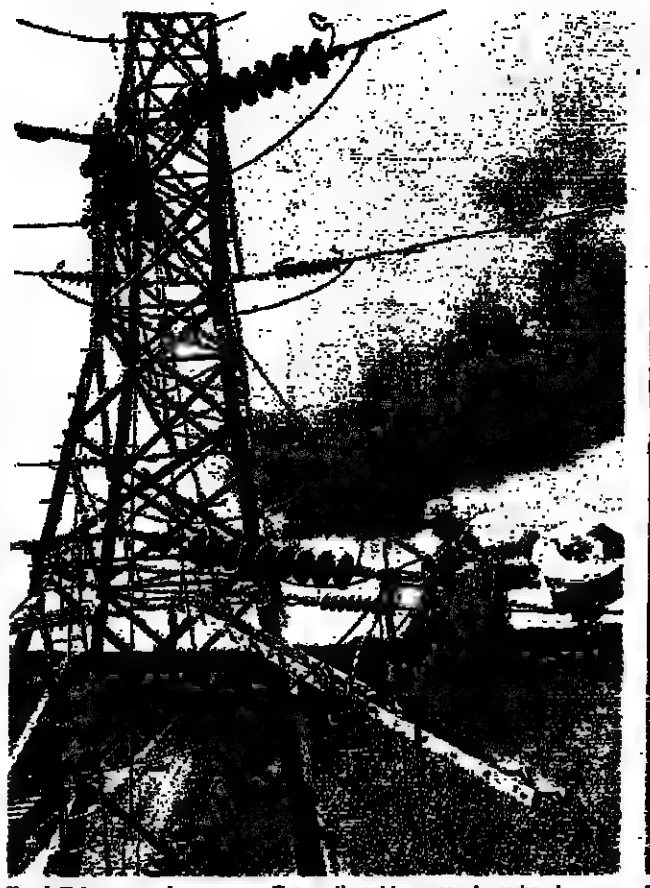
The 1990s are ushering in an era of cheap, effective telecoms and convergence with data processing and media. But making the right strategic decisions and investments looks as if it will prove more difficult for telecoms managers than at any time since the first business telephone was installed.

Factors influencing the decision to buy telecoms*



*Survey of 350 top European corporations

Source: Analysys



Torch Telecom engineers wrap fibre optic cables around overhead electricity lines. Torch serves businesses in Yorkshire and Humberside

Business on the move: Cellnet's mobile data service enables users to transmit information across the network or access data back at the office

IN THIS SURVEY

Production Editor: Philip Sanders

USER PROFILE **Distribution and transport**

Tesco depot goes cordless

Tesco, the UK's leading supermarket chain, has equipped staff at its Southampton depot with cordless telephones to improve internal and external communications.

The 260,000 sq ft depot, which holds refrigerated goods for the local market, was opened at the end of last year.

In older depots Tesco uses the more conventional radio and public address communications systems but has found that they are inefficient. When people are called over a public system they have to find the nearest phone extension and wait for the incoming call to be diverted to it.

This takes too much time and the call can be lost before it is picked up, which in turn causes an unnecessary waste of time and the extra expense of calling back.

In 1994, Tesco tested cordless systems based on the DECT (Digital European Cordless Telephone) standard, but delayed making a decision on implementation.

Soon after that, it took its first step into cordless technology, introducing a small number of Companion handsets from the Canadian manufacturer Nortel (Northern Telecom) at its print centre near Milton Keynes. These use the CT2 standard, an alternative to DECT.

Tesco has a large investment in Nortel switching equipment and therefore preferred cordless systems linked to its Nortel private branch exchanges.

When the new Southampton depot was opened, distribution managers favoured the use of cordless systems over traditional walkie-talkie systems, arguing that this would give them much more comprehensive communications.

Further trials of DECT-based equipment concluded that it did not work well in a refrigeration environment, according to Mr David Sheridan, Tesco's telecommunications controller.

"We were going to use a DECT system, but we found that in a large refrigeration centre the reception level was affected. It was a peculiarity of DECT that we could not easily resolve," he says. "We did not have a strong view about which standard was better, it was purely a practical matter."

Tesco then contacted British Telecommunications for advice and conducted a further test using Nortel's Companions. This test was successful and it was decided to go ahead with that system. Companions were given to 24 staff at all levels within the new depot. About a dozen base stations were needed to ensure seamless communication; these have been concealed in the roof.

"It has worked like a dream since the depot opened and the staff absolutely love it," says Mr Sheridan. "It has greatly improved the speed of communications and the productivity of the depot."

Staff can now be easily contacted anywhere within the depot by head office, local stores or business partners.

Tesco will now consider whether it should use cordless technology in all its 20 depots around the country, some of which are larger than the Southampton one, as well as in its stores. The Companion system is claimed to be able to cover up to 500,000 sq m.

The company is considering whether to carry out more trials this year. If it decides to spread the use of cordless technology, the likelihood is that Nortel's Companions will be used.

"I am after a common system for all our locations," says Mr Sheridan. "We don't want to mix suppliers."

He does not expect that cordless phones will ever completely replace desk phones, because they are more expensive to install, but a number of staff who do not have desks now have phones for the first time.

A large number of Tesco staff have mobile phones on cellular networks such as Vodafone and Cellnet, but these are used for longer-distance calls and are not suited to use in depots. Mr Sheridan expects that they will continue to be used.

Tesco is not the only UK supermarket chain which has ventured into cordless technology, but like its competitors it believes that every little gain in productivity is worth pursuing as the battle for market share intensifies.

Its experience suggests that the attempt by European manufacturers to push CT2 out of the market may fail.

Only Nortel and the UK's GPT support CT2, which was invented in the UK and has the lower status of an interim standard. CT2 is not supported in all European countries.

Ericsson of Sweden, Siemens of Germany and Alcatel of France have all put their weight behind DECT, which has been ratified by the European Telecommunications Standards Institute (ETSI).

Although the majority of users may adopt DECT because it is the official standard, some important users may make up their minds on the basis of performance rather than official standards.

Ms Diane Trivett, a Dataquest analyst, said that CT2 was likely to remain as a niche technology. "There is room for both in the market," she said.

Although DECT systems have been successfully installed in many sites, there have been other reports of difficulties. DECT operates at a 1.9 gigaherz frequency: CT runs at 846-868 megaherz.

Some experts say that DECT's higher frequency may affect its performance in certain environments, such as those which feature thick concrete and metal. Performance can sometimes be substantially improved by increasing the number of base stations, although this increases the cost.

However, there have in the past also been some reports of problems with CT2 systems.

The market contest will be resolved in the next few years, as cordless systems spread more widely.

Other types of retailer have discovered different benefits. At the Swedish furniture chain Ikea, according to Nortel's product marketing manager Mr Keith Newman, cordless technology has helped sales.

"Big orders can be lost if the warehouse manager cannot be contacted, because people ring around to find the first store which has got what they want," he said. "So contactability can have a very high value."

George Black

USER PROFILE **Pharmaceuticals**

Increasingly crucial role

A senior executive of Eli Lilly, the US drugs company, once described his company's business as "50 per cent information technology, 50 per cent pharmaceuticals." His comment highlights the increasingly crucial role played by computer and telecommunications technologies in the fast-changing, high-pressure world of the global pharmaceutical manufacturers where a day's delay in bringing a product to market can cost $1m in lost revenues.

Most companies in the pharmaceutical industry, like those in other sectors, have embraced the mantras of cost containment, business process re-engineering and workflow management enthusiastically as means to improve financial performance and maintain a competitive edge.

This, says Ms Grace Ashby, Mercury Communications' sector development manager for the pharmaceutical industry, has in turn has led drug groups such as Eli Lilly and SmithKline Beecham to take a closer look at their voice and data telecoms requirements and in particular, at the ways in which telecoms systems and services can help enhance business prospects.

Mercury Communications, whose clients include SmithKline Beecham, often provides a wide range of telecoms services for its pharmaceutical corporate customers. This can include virtual private networks which allow low-cost short-code dialling throughout a multinational's disparate sites, videoconferencing services, centralised billing and consolidated management reports which provide the client with a comprehensive view of their telecoms services usage.

Several companies in the sector have installed sophisticated interactive voice response systems to deal with doctors', chemists' or patients' inquiries – some have been set up so that callers can press a number on their telephone handset and have details of possible side effects sent back to them by fax.

Other innovative uses of telecoms have included the use of freephone numbers for customer care initiatives – SmithKline Beecham, for example, used a freephone number to answer questions from the public when its Tagamet anti-ulcer drug was launched into the over-the-counter market.

The need to reach out and communicate with existing or potential customers has also encouraged drug companies to become early business adopters of the Internet as a marketing medium. Today, pharmaceutical companies' Web sites are among the best presented and most informative on the Internet.

"Using the Internet, companies are able to manage much higher volumes (of inquiries) than on the phone," says Ms Ashby.

Pharmaceutical companies are also using the Internet as a means to disseminate information about their products to doctors and others in remote geographic areas. Meanwhile, closed-user online services such as Health Online, a medical electronic service set up by Burda, the German publishing group, provide a more secure and confidential communications channel.

The Internet has also become an important source of information for those working to develop new drugs. Researchers, often using pseudonyms and perhaps even laying false trails to confuse competitors, use the Internet to search for patents, track competitors' products and pinpoint market opportunities.

Given the escalating costs and risks involved in new drugs, many pharmaceutical companies are also attempting to manage and spread the risk by forming research partnerships.

In these cases, secure telecoms links can help geographically remote teams exchange data and work more closely together.

"We can provide advice of 'firewalls' and better security," says Ms Ashby.

Similarly, companies such as SmithKline Beecham have begun to make extensive use of videoconferencing networks. SmithKline Beecham uses its own transatlantic video links to bridge the gap between UK and US head offices, and facilitate its research and development activities.

"Videoconferencing has become a routine communication tool in co-ordinating international RD activities," says Mr George Poste, the group's RD chairman. The company's expanding videoconferencing facilities include studios in its West London headquarters which are rarely empty.

Most companies are also trying to use technology to reduce time-to-market for new drugs, for example by speeding up the time it takes to process clinical trials.

"Some companies believe they can cut the clinical trial process by half, from 30 months to 15 months, by managing the process better," says Ms Ashby.

Traditionally, a clinical trial depended on a lengthy and largely paper-based process which began with a general practitioner filling out a piece of paper after seeing a patient, sending this report back to the company conducting the trial which then had to input the data into a computer for analysis.

More recently, doctors have been given computers in order to enter the data directly and clinical research assistants, who normally visit the GPs every six weeks, have been provided with mobile computers and digital telephones so they can access the latest clinical trial information remotely.

Pharmaceutical sales representatives were also among the first users of mobile computers, data services and cellular telephony although Ms Ashby says most companies in Europe are now switching to digital telephones based on the Global System for Mobiles (GSM) standard for both voice and data. "We are seeing people migrate from analogue phones to GSM for data," she says.

For "teleworkers" and others who work partly or entirely from home, telecoms operators can also provide freephone numbers and pin-protected remote access services. Indeed, as computing and telecoms continue to converge, the partnership between IT service providers and pharmaceutical companies is likely to become even stronger.

Paul Taylor

USER PROFILE **Financial sector**

Early, enthusiastic users

If money is the lifeblood of the financial services industry, telecoms is its circulatory system.

Financial services companies are early and enthusiastic users of information technology. They spend more on telecoms and computers – between 3 and 6 per cent of gross revenues – than companies in other industrial sectors and are fiercely unforgiving of faults and breakdowns.

"In this business, people cannot live without communications," the telecoms manager for a large stockbroker acknowledged. "We had a problem today with our dealerboards – the automated systems which provide high-speed connections to customers and other brokers – and there was panic; the dealers were screaming for the fault to be rectified."

This explains to a large extent the caution and conservatism among telecoms managers. They buy the best equipment and test it thoroughly before using it in anger; pilot systems in which two or more manufacturers are pitted against each other are not uncommon.

By the same token, financial services organisations are important customers for telecoms operators seeking to encourage greater use of their telecoms infrastructures.

A recent survey sponsored by Mercury Communications covering financial institutions in Frankfurt, London, New York, Paris and Tokyo, revealed that worldwide, the chief priorities are reducing prices and improving service levels.

Customers in Paris, Frankfurt and Tokyo, where national operators still have a monopoly, were most interested in lower costs while firms in London and New York were more focused on improvements in service level.

Managers agree that competition makes a huge difference; it provides the principal impetus for cost reduction and service improvement. In the UK, for example, there is a substantial difference in costs between British Telecommunications and other licensed operators such as Mercury, MFS or Colt.

An important trend is the outsourcing of telecoms requirements. Whereas in the past a firm might build its own network to cut costs and achieve a tailored service, it is increasingly common to find firms relying on carriers to provide a managed network.

According to the Mercury survey, 61 per cent of London-based financial organisations have already considered outsourcing while a further 11 per cent plan to do so in future. Paris is the laggard in this area with only 20 per cent of firms having actively considered outsourcing even if a further 30 per cent plan to do so in future.

Reasons for not outsourcing include a lack of perceived need and lack of trust in a third-party supplier. As firms move to more advanced forms of telecoms, however, it is likely that outsourcing will increase in attraction.

A company which built its own private network some years ago and saved itself tens of millions of dollars in doing so would take a different approach today: "Building our own private network was a staggeringly good thing to do eight years ago, but we would not do it now."

Today, the choice is more likely to be a virtual private network. Based on "intelligent" switching equipment, this gives customers the equivalent of a leased line for the cost of a call over the public switched network.

The Mercury survey analysed the use by financial institutions of four advanced telecoms services: videoconferencing, location-independent working, asynchronous transfer mode (ATM) and the Internet.

Videoconferencing has become increasingly common as the ready availability of chips capable of processing video images has brought the service to desktop personal computers at reasonable cost. More than half of the London-based companies in the survey used PC-based systems compared to only 20-30 per cent in other cities, while Tokyo-based companies tend to use traditional studio-based systems.

Location-independent working – working outside the office with telecoms links providing access to many of the services conventionally supplied to the desktop – seems to be in its infancy. The survey found that sales staff and IT management were the most enthusiastic users: "Although widespread, location-independent working is more likely to be done on an ad-hoc or needs basis rather than a company-wide decision," the survey concludes.

ATM is a new technology associated with companies' need to send or receive large amounts of data, often on a "bursty" or occasional basis which would make the permanent installation of a high capacity line uneconomic.

It is still in an experimental stage in most organisations.

The Internet proved by far the most popular of the four technologies but also the area where there was most anxiety. The overriding concern was security, followed by cost, the risk of infection by computer viruses, lack of privacy and – a worry not limited to the financial sector – fears that staff might be wasting time and money "surfing" in office hours.

The benefits were perceived as access to more, better and faster information, followed by advertising potential, cost cutting, the ability to use electronic mail and the ability to generate new business.

Telecoms managers still believe that their suppliers do not understand their needs clearly enough. For example, as they expand globally, the need to have similar systems operating in the same way in each location.

One manager said: "There is a lot of clever technology out there. The trick is to pitch into a new technology at just the right moment. Too often, we are offered systems just slightly ahead of what we can cope with."

Alan Cane

USER PROFILE **Manufacturing**

British Steel has been at the forefront of implementing technology developments in business telecoms

Future-proofing for the next millennium.

As the world's third-largest steelmaker, British Steel pumps out some impressively large numbers, particularly when its markets are buoyant. Group turnover was £6.2bn in 1994-95, pre-tax profits surged from £80m the previous year to £578m, and earnings per share jumped from 3.45p to 23.21p.

When it comes to profits for 1995-96, due to be announced a week today, City of London estimates suggest we could, metaphorically, be "talking telephone numbers."

Behind the financial data, however, is a real telephone numbers story. Just as British Steel has, over the past 15 years, turned itself into one of the lowest-cost producers in the world steel industry, so it has also been at the forefront of implementing technology developments in business telecoms and data transmission.

The western steel industry is noted for its cyclical phases of boom and bust – historically it seems to have got itself into a deep crisis every decade or so. By coincidence, big changes in British Steel's telecoms infrastructure have also occurred roughly in decades.

In the mid-1970s, the company was one of the first in the UK to develop an integrated telecoms infrastructure, says Mr Andy Kaye, manager of corporate IT services. A hard-wired, high-capacity "backbone" or nationwide transmission system, based on analogue circuits, supported a desk-to-desk dial-and-speak network – one of the largest in Europe – and a comprehensive packet switching data network. The system, known as Coten (Company Telecommunications Network) was very avant guard for the time, says Mr Kaye.

Then, in the 1980s, the backbone was upgraded to a digital network – in 1983 the company was the first user in the UK of megastreams or 2-megabit "digital pipes."

The packet switching network was replaced by IBM Systems Network Architecture (SNA), a communications protocol, which links the company's IBM terminals worldwide to its various mainframes.

The speech network was upgraded to a fully digital system utilising 2-megabit ISDN lines.

Towards the end of the 1980s, the company took advantage of telecoms liberalisation to use "break-out," which charges a long-distance call from inside the private network to an outside party as a local call. Indeed, Coten met many of British Steel's needs at a reasonable cost, but by 1989 it began to recognise that the era of the inter-site private network was coming to an end, says Mr Kaye.

The company started looking at a so-called "virtual private network," put the project out to tender in 1993, and a year later awarded a five-year contract to Mercury Communications.

In the new version of Coten, which began operating last October, the hard-wired backbone has been replaced by Mercury's national network.

British Steel sites plug into the Mercury network at the nearest point and the telecoms company handles the routing of information.

Essentially, the system is a package based on Mercury's Managed Network Services platform, adapted to deliver a solution for the steel company, says Mr Bob Rawson, executive account manager at Mercury's Leeds office.

"We had been providing services to British Steel since the late 1980s, so had gained a good understanding of their requirements," says Mr Rawson. "This enabled us to put together the right package for their current and future needs."

Mr Kaye sees four main reasons for the switch to a virtual private network (VPN). First, it should save British Steel money, both on running costs and on avoiding capital spending that may be necessary for any future upgrading.

Secondly, it should allow the company to take advantage of new technology developments much quicker, because these could be expected to come as part of the Mercury package. Developments would include ATM (asynchronous transfer mode, the promising technology for combining voice, data and full motion video in the same transmission path) and "frame relay" for expanding and linking local area networks.

Thirdly, it should be much easier to expand the network internationally via a telecoms company such as Mercury. This is an important consideration for British Steel as it expands overseas, and in the old network the ability to develop internationally was very constrained, says Mr Kaye.

Initially, the contract concentrates on a speech and data network for the UK, but international network development is under way and will accelerate. Frame relay has already been used for establishing a data link between the UK and British Steel's offices in Chicago and Montreal.

Finally, says Mr Kaye, there is a general outsourcing point: "It removes the need for us to have people with their heads down in technology. Instead, they can concentrate on end-user benefits."

Effectively, the deal with Mercury means that British Steel has outsourced the management and maintenance of the network, although it does not constitute full outsourcing because neither people nor assets were involved.

Since the Mercury deal, though, there has been some full-blown outsourcing at the steel company, which earlier this year sold its Central Management Services unit to Hoskyns, the UK arm of French computer services group Cap Gemini Sogeti. CMS ran part of British Steel's IT operations and as part of the deal 300 employees switched to Hoskyns. Further IT outsourcing initiatives are under consideration.

Meanwhile, Mercury has set up a dedicated "front office" at Wythenshawe, Manchester, to handle service calls from users of the British Steel network and look after their future requirements.

Essentially, the steel company is future-proofing itself by ensuring it will have a telecoms network suitable for the next millennium, which will enable it to take advantage of the many facets of the information superhighway.

The use of multimedia, for example, will require increasing bandwidth to be available. "As we need it, we should be able to get it quite easily from the virtual private network," says Mr Kaye. Also, while audioconferencing has been used for years at British Steel, videoconferencing as a substitute for meetings is a newer idea, and would be facilitated by the Mercury network.

Andrew Baxter

■ **Asynchronous Transfer Mode (ATM) and Frame Relay:** by Tom Foremski

Too fast for many users

ATM will be an increasingly important technology for communications

When it comes to fast communications technology that can transport a wide variety of different data types, the future belongs to Asynchronous Transfer Mode (ATM)-based communications networks. The only problem is that it is too fast for many current users.

But as the demand for sending and receiving large graphics files, video, voice and other multimedia data services increases, ATM will be an increasingly important technology for communications. And ATM will also make its way into the office in the form of ATM-based local area networks (Lans) and possibly even into the internal communications buses of PCs.

The versatility of ATM is due to its design. It cuts up all data traffic into 53 byte packets which makes it easier to build high-speed switches since the size of each packet is always the same. With speeds of 155 mega bits per second (Mbps) and 622 Mbps possible, voice, video and graphics data packets can be mixed together while still retaining a real-time transmission.

Customers can also be charged for the amount of data they send instead of being forced to pay for a digital line of a certain capacity, such as a T1 line, even if they do not use the whole bandwidth.

ATM also works well with frame relay, which is slower but less expensive than ATM. Frame relay data traffic uses variable sized data packets, but these can be cut up into ATM-sized packets and reassembled at the other end.

"ATM is definitely the wave of the future, and when we were considering investing in an ATM network or sticking with older technologies, we decided that ATM was more flexible and was better suited to future applications," says Mr Simon Waddell, head of Advanced Services at Energis.

Energis boasts the largest ATM network in the UK, using fibre optic links strung along the earth wires of electrical power pylons. The trouble, however, is that there are no customers that need data delivered at such high speeds.

For most companies, a T1 line that handles data at about 1.5 Mbps, is plenty, and frame relay switching offers good and reasonably-priced performance for data traffic up to about 2 Mbps. A key problem with ATM is that it was difficult to offer customers a way to move from steadily increasing data communications needs without forcing them to jump to very high speed bandwidths.

"That has changed," says Mr Waddell. "We can now offer customers services from 2 to 4, 6, 8, 10 and 12 megabits with ATM, without having to hop up to 34 megabits. And much of the market is in that lower band right now."

The Mirror Group, publisher of the Daily and Sunday Mirror newspaper, will use the Energis ATM network to transmit editorial copy and pages directly to printing plants, enabling it to publish late-breaking news in its newspapers.

ATM's speed is also much in demand for carrying Internet traffic and it is an essential technology in helping to increase the data-carrying capacity of the global Internet.

California-based telecommunications company Pacific Bell recently said it will use high-speed ATM switching equipment from StrataCom to greatly increase the data capacity of its Internet Network Access Point (NAP). This will become the fastest NAP in the world. Using ATM, the NAP will handle data at 622 Mbps compared with typical NAPs that handle data at 45 Mbps. Pacific Bell says that its network already handles almost a third of all US Internet traffic and that the new NAP will help avoid Internet log-jams. The company also has plans for an ATM platform handling as much as 20 gigabits of data per second.

Torch Telecom transmits live video and audio of surgery from operating theatres at St James' Hospital in Leeds across the city to a new keyhole surgery training suite (above). Transmission is via a 622 megabits dedicated link using ATM capability at both ends, for high resolution picture quality

Although ATM is still too fast for the needs of the vast majority of companies, Walt Disney Animation Studios in California requires high-speed data communications to send and receive high resolution images. The company has installed a 155 Mbps ATM network linking 11 buildings to transmit large image files used to create its animated films.

Its forthcoming *Hunchback of Notre Dame* animated feature is being produced by 250 artists connected to its ATM network. This kind of high-speed network gives Walt Disney artists almost instant access to a database of more than 3m high resolution images.

ATM is perfectly suited for Disney's requirements and as other companies increase their use of computer-aided design and manufacturing (Cad-Cam) systems, they also see a growing need to transmit high resolution graphics images between different sites and an ATM network is becoming a key option.

US market research company Computer Intelligence Infocorp (CII) recently surveyed potential users of ATM networks in the US and found growing interest in the technology.

Mr Stan Schatt, CII industry analyst, says: "ATM's scaleability and the efficiency of a single topology that handles both local and wide area network transport needs make ATM technology particularly appealing to corporate network managers.

"Many of the companies CII surveyed have already budgeted funds to begin converting their network infrastructures to ATM."

CII says that manufacturing companies with Cad-Cam applications are the leading candidates for ATM adoption, followed by government, services, education and medical.

While there is no denying ATM's speed and future promise for many users, it may be several years before ATM makes a widespread impact.

"ATM is not going to take over the world any time soon," says Mr Mike Pilbeam, research director at Cray Communications in the UK. "That's because there is a tremendous amount of basic telephony services already in place that do a good job and will satisfy many users' requirements for many years into the future."

Mr Pilbeam points out that carrying voice over ATM networks can result in a loss of quality which users do not like. And ATM's move into Lans, where Ethernet technology dominates, also will not happen in a hurry. This is because Ethernet technology is being upgraded to 100 Mbps and even 1,000 Mbps speeds and can take advantage of Ethernet systems already in place within company networks.

■ **SDH:** by Tom Foremski

Data highways workhorse

The great cost of SDH software development has resulted in joint ventures between companies to help share expenses

When it comes to providing businesses with a wide range of data services, Synchronous Digital Hierarchy (SDH), or Sonet as it is known in the US, has emerged as the workhorse on which telecoms carriers around the world are building future super data highways that can move voice, video, graphics and other data at very high speeds.

SDH is rapidly replacing an older digital technology called Plesiochronous Digital Hierarchy (PDH), which does not provide the same management facilities. With SDH, network operators can create an intelligent transmission channel that offers better reliability and recovery in the event of a failure in a part of the network – and also allows all current and planned data and voice services to use a common infrastructure.

In Germany, Deutsche Telekom is considered the most aggressive in its SDH investments. According to market research firm Yankee Group, it is spending more than $500m a year on installing SDH equipment.

In the UK, British Telecom is also making substantial investments in a nationwide SDH network along with other companies. For example, Energis Communications boasts it has the largest operational 100 per cent SDH network in the world, carried on a nationwide network of fibre optic cables strung along the earth wire of the national power grid.

"Other telecommunications companies in the UK offer SDH but they also have a substantial amount of PDH systems in place which coexists with SDH but can slow down overall performance. We have a 100 per cent SDH network," says Mr Alistair Henderson, manager of network strategy at Energis.

Mr Henderson points out that unlike older PDH systems, SDH-Sonet equipment can be used virtually anywhere in the world because of its success in becoming a global telecoms standard. This ability to create universal SDH equipment helps keep down the costs of installing SDH networks.

Energis, like other newly-formed operators, started off with an advantage in that it did not have an existing infrastructure of PDH equipment to protect and to amortize. It could jump into the market with the best telecoms technology it could find.

SDH offers data speeds ranging from 155 megabits per second to as much as 10 gigabits per second. And it can carry Asynchronous Transfer Mode, frame relay, TCP-IP and other data, making it perfect for a wide range of voice and multimedia data services.

"For example, the BBC uses our SDH network to carry television and radio programmes between its various studios and its broadcasting facilities," says Mr Henderson. Energis won the multi-year £100m deal because of its SDH network and the improved management and reliability SDH offers.

But SDH's performance comes at a price. It is a very software-intensive technology resulting in huge development costs for the leading telecoms equipment companies. The great expense of SDH software development has resulted in joint ventures between companies to help share costs.

For example, UK-based GPT is allied with Siemens and has emerged over the past few years as the leading supplier of SDH equipment with about a 30 per cent worldwide market share.

"SDH is providing the data communication backbone on top of which all kinds of data services are being offered," says Mr Bernie Jarvis, director of strategy for GPT Public Networks Group. "Corporations are increasingly aware of the benefits of SDH and are asking for it by name. They realise that their communications networks are vital to their operations and they want SDH."

And while SDH is a robust technology, there are some problems in using SDH equipment from different vendors. These compatibility problems are related to the different high-level functions offered by different SDH network operators and Mr Jarvis says that these incompatibilities often mean that telecoms companies have to separate different parts of their network and just use equipment from one vendor on that part of the network to ensure compatibility.

Efforts are under way to overcome the compatibility problem by developing international standards. "Progress is being made on the standards issue but it's a race to keep up with the higher functions that some SDH operators are providing. SDH networks can be made compatible but they would offer a lower level of functionality," says Mr Jarvis.

He explains that many large organisations are leasing SDH lines to act as the links between their internal corporate networks. The high data-carrying capacity of SDH makes it possible to implement applications such as videoconferencing, voice, text and Internet-related data transmission.

Many customers of SDH services are also demanding that fibre optic links be established to improve the reliability of their telecoms networks.

The growth of cable TV operators is also creating demand for SDH to provide cable TV customers with telephone services. And SDH networks are used to distribute TV programming to local points before being distributed over the cable TV company's coaxial cable networks to homes.

While SDH offers a large data-carrying capacity, with the exploding growth in data services such as Internet access, interactive video and other high-bandwidth services, there will be a need for even greater data-carrying capacity by the turn of the century.

"While it's possible to achieve about 10 gigabits per second with SDH, it is pushing the current technology to its limits," points out Mr Henderson at Energis. "The next major advance will occur when it becomes possible to operate in a pure optical mode."

Currently, fibre optic networks carry data optically on a single wavelength. Communications networks have to translate that data to electrical signals for switching and amplification. This slows down the network and increases costs. Ideally, it would be best to do all the switching and amplification optically.

Several high technology start-up companies are beginning to offer optical equipment called wave division multiplex, capable of offering up to 16 or more separate wavelengths on a single fibre.

Each of the 16 wavelengths can carry a high-speed SDH traffic path effectively multiplying capacity by 16. In addition, optical amplifiers are being used to increase the distances between equipment sites from about 50km to several hundred kilometres. This technology has been used successfully in international submarine cable links, and will also be used in national networks.

In the meantime, current SDH networks are predicted to be able to supply corporations with plenty of capacity for their data services for many years to come.

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■ **Computer Telephony Integration (CTI):** by Tom Foremski

Potential market is huge

Tens of millions of businesses around the world rely on their relatively simple telephone systems. CTI offers a more productive way to manage this resource

Imagine phoning home from the office and your PC tells you there is an important call on the other line from a key client and it automatically brings up the client's order information and the notes of your last conversation. Or you might choose to ignore a call, sending it to your voice mail box because your PC tells you the caller is a telesales operator.

These are the kinds of functions possible through the use of Computer Telephony Integration (CTI), a technology that brings the power of the PC to what is essentially a simple telephone. For many businesses, the efficiencies that CTI could provide are becoming very attractive.

But it has also been an area where potential customers have been concerned about industry standards and reliability. There are a number of proprietary CTI systems but the main action is in setting the industry standards that will allow software and hardware vendors to mix and match CTI systems depending on customer needs. This will also help to drive down the price of CTI and expand the market opportunities.

The potential market is huge. Tens of millions of businesses around the world rely on their relatively simple telephone systems. CTI offers a more efficient and potentially a more productive way to manage this resource.

Currently, there are two main CTI standards being pushed. One is from Microsoft and Intel with their Telephony Application Programming Interface (TAPI) technology, and the other is the Telephony Services Application Programming Interface (TSAPI) being promoted by Novell and AT&T.

The main difference between the two is that TAPI is being used to allow PC-based CTI applications to take on many of the functions of a PBX (Private Branch Exchange), while TSAPI is more focused on the back-end, linking the PBX with network servers. This distinction is not quite as clear-cut as it seems, because Microsoft is also promoting TAPI for network servers connected to PBXs through Windows NT-based servers, and TSAPI is also being promoted to PC software developers.

This means that the current standards battle is between these two camps and their supporters – which does not help

Colonial Direct has set up a telephone-based personal finance planning division based on call centre technology from Co-Cam, specialists in call centres, marketing and contact management applications

customers who want standard solutions that can be configured for many different applications without possible incompatibility problems.

Microsoft is making a concerted effort to win the standards battle by including TAPI support within its operating systems, which are virtually ubiquitous in the PC world. This is very enticing to software and hardware developers because it means there are already tens of millions of PCs with the ability to support CTI applications – and tens of millions of potential customers.

But despite the availability of standards, there is no guarantee that the various companies supporting those standards will implement them in ways that will always prevent compatibility problems. This makes setting up CTI systems a more complex process which still requires considerable planning and testing.

Despite the potential pitfalls, many companies are installing CTI systems. One bank, for example, is using CTI to prompt sales staff to call specific clients if there is any change in stock prices that might affect those customers.

According to Mr Jason Peacock, systems engineering manager for Voice in British Telecom's Global Finance Sector: "CTI has a lot to offer retail banking. On the wholesale banking side, there are also now plenty of bespoke applications being developed by users seeking a competitive edge."

For companies interested in CTI systems, a certain amount of familiarity with key CTI terms is necessary:

- A "screen pop" is a window that pops up on a PC monitor that shows that a call is coming in and displays information on the caller;
- "Interactive voice response applications" allow callers to use touch tones to navigate through a database or process.
- "Call control" is the process of setting up and handling a call and is divided into "first person call control" which allows a participant in a call to forward or reply to a message; and "third-party call control" which allows someone not participating in a call to set up conference calls and other functions.

Third-party call control is considered more expensive but more desirable because it allows companies to have a more flexible CTI system. However, Mr David Parcell, managing director of UK CTI vendor Co-Cam, is trying to make third-party CTI systems more affordable and easier to install.

"Companies face a barrage of conflicting definitions, promises of unsubstantiated benefits and a whole host of horror stories of complexity. The net result is that third-party CTI is viewed as a high-tech luxury confined to large call centres with big spending power," said Mr Parcell.

Co-Cam is one of many companies attempting to bring down the cost of higher function CTI systems. Co-Cam is offering an off-the-shelf third-party CTI system which can be scaled from small call centres, with as few as five agents, to much larger call centres.

The Internet is also making an impact on CTI. At the recent Computer Telephony Integration Expo, in the US, several companies showed CTI-Internet products. US-based SpanLink introduced its WebCall software that allows Internet users to click on a "call agent" button while browsing a web site and receive a call from a company representative.

There were also products that use the Internet to make phone calls such as the @Once telephony gateway server from Dialogic and VocalTec that connects an Internet-connected PC to any telephone. Lucent Technologies and Siemens-Rolm demonstrated products that provide Internet-based telephony access into call centres.

CTI certainly promises businesses a wide variety of powerful applications and while the standards issues have yet to be settled, there are already enough CTI applications available that should help to improve the efficiency of virtually any size of business.

■ **Calling cards:** by Philip Manchester

Solving travellers' problems

One important use of the cards is for frequent travellers who must use hotel telephone systems

You need to telephone home urgently. But you're in a foreign country, you don't speak the language and you don't have enough change to make the call.

Anyone who travels regularly has faced this problem and it can cause deep anxiety and frustration. The answer to all of these problems – as revealed in a current TV advertising campaign by British Telecommunications – is a telephone charge card or calling card.

BT and most of its rivals offer the cards free of charge as an incentive to their customers:

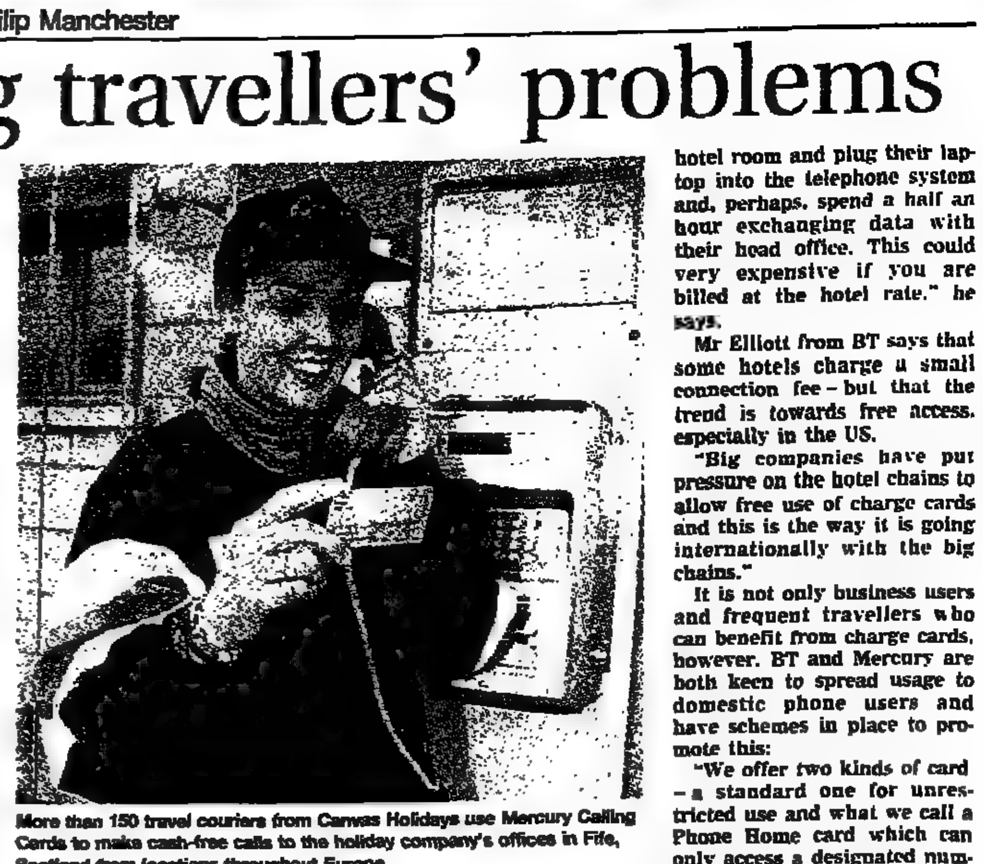
"We see it as a way to keep in touch with our customers when they are travelling abroad. The card keeps our name in mind and helps us to hold on to our market," explains Mr Chris Elliott, UK marketing manager for BT Card Services.

BT charge cards operate anywhere in the UK and in 120 countries around the world. Mr Elliott says that despite its apparently low profile, BT has operated a charge card service since the early 1960s and there are as many as 7½m users of the service:

"It is quite simple to use. You pick up the phone, dial an access code followed by a personal PIN number and the number you want to reach. The call is billed either to your own telephone number or to a separate account. You can use any telephone and talk for as long as you like. And if you're abroad you don't need to read foreign language instructions or go through a foreign operator."

The separate billing feature, says Mr Elliott, is especially useful for business users:

"For business people doing a lot of travelling, the charge cards give you itemised billing and the equivalent of a receipt



More than 150 travel couriers from Canvas Holidays use Mercury Calling Cards to make cash-free calls to the holiday company's offices in Fife, Scotland from locations throughout Europe

for expense claims," he says.

Other telecoms suppliers have followed BT's lead with charge cards – offering similar services:

"We launched the Mercury Calling Card at the end of 1993. It lets you make a call from most telephones in the UK and covers about 60 countries internationally," says Mr William Hoyle, card services product manager at Mercury.

Mercury users, like the BT card users, must also enter an access code and a PIN number before placing their call. And Mercury offers similar billing arrangements. Mr Hoyle says that Mercury emphasises the business value of its charge cards:

"From the business perspective it does give you an element of control you don't have with cash calls. Take the haulage industry, for example. Traditionally, haulage companies would give their international drivers wads of notes to make calls when they are on the road. They had no control over what happened to it. With the card, they get a summary statement with all of the calls listed," he explains.

Business users can direct the call charges to a central account. Mercury sends a summary statement to the company with all usage itemised.

Mr Hoyle goes on to say that the main use of the cards is for frequent travellers who must use hotel telephone systems. The cards help to reduce the notoriously high call rates charged by hotels – sometimes as much as six times the normal rate. Despite the potential loss of income, most leading hotel chains will allow the use of charge cards.

"Some hotels do bar the use of charge cards. But many are realising that they are removing an incentive to stay at their hotels. If a regular traveller knows that a hotel allows charge card usage, he or she is more likely to stay there than at one which doesn't."

While the main use of charge cards is to make standard "voice" calls, Mr Hoyle notes that there is a growing use of the card for computerised communications:

"A lot of business users want to be able to go to their hotel room and plug their laptop into the telephone system and, perhaps, spend a half an hour exchanging data with their head office. This could very expensive if you are billed at the hotel rate," he says.

Mr Elliott from BT says that some hotels charge a small connection fee – but that the trend is towards free access, especially in the US.

"Big companies have put pressure on the hotel chains to allow free use of charge cards and this is the way it is going internationally with the big chains."

It is not only business users and frequent travellers who can benefit from charge cards, however. BT and Mercury are both keen to spread usage to domestic phone users and have schemes in place to promote this:

"We offer two kinds of card – a standard one for unrestricted use and what we call a Phone Home card which can only access a designated number. Parents can give these to their children or elderly relatives to make it easier for them to phone them," says Mr Elliott.

Mercury operates a similar scheme under its 3 Call service: "You can set this up to limit calls to up to three designated numbers. When a call is placed from one of these cards, it is checked against an online computer database to ensure it is authorised. Some of our customers with children away at college tell me it is the best way to make sure they phone home," says Mr Hoyle.

Call charge cards certainly seem to solve many of the problems faced by travellers – and they can also expect to save significant sums on charges. Mercury reckons the charges in the UK come out at about the same rate as those made from a standard payphone. BT says that callers can save between 3 per cent and 10 per cent on UK calls.

"We see no reason why everyone shouldn't have a charge card. They cost the user nothing and are very convenient, especially when travelling," says Mr Elliott.

■ **Virtual Private Networks (VPNs):** by Philip Manchester

Trend towards innovation

VPNs allow companies to scale their networks up and down more easily and gain cost benefits from sharing a large telecoms resource

Businesses rely on telecommunications for so many critical functions in the 1990s that it makes sense for them to find the least expensive way of "wiring" up their organisations.

Traditionally, internal company networks have been based on expensive dedicated lines, leased from a telecoms supplier. But over the past couple of years the trend has shifted to the innovative use of public networks as the foundation for corporate telecoms.

Virtual Private Networks (VPNs) are the most recent example of this trend. In simple terms, a VPN appears to the individual company as a dedicated network. But it uses the public telecoms infrastructure with all of the economies of scale this brings. The telecoms supplier looks after all of the technology – providing a utility "pipe" with an agreed level of service to the business.

"In the past, many organisations built their own private networks. But now they can get the same sort of service from VPN using the public switched network," says Mr Chris Gahan, data solutions manager at British Telecommunications.

"The change agents are coming from changes in business practices – the move to direct marketing, the use of telesales and telemarketing and so on. There is more of a customer orientation now. He cites First Direct Bank and Direct Line Insurance as two examples of this change – sometimes referred to as "disintermediation" or, more traditionally, "cutting out the middle man".

The change means greater reliance on telecoms and VPN is increasingly seen as the best way to meet the need.

Although the first VPN dates back to 1975 when France Telecom introduced Colisee, the main market until recently has been in the US. Sprint and AT&T launched the first VPN services in the US in the mid-1980s, quickly followed by MCI's Vnet. AT&T launched the first international VPN service in 1989.

The US is the most mature market for VPN services. A report from market researcher Ovum shows that the US market for VPN services in 1995 was $3.6bn. Because of the maturity of the US market, only moderate growth is expected between now and 2005, when the market will be worth $5.5bn.

Outside the US, the picture is very different. Ovum puts the market in Europe and Asia-Pacific at only $100m last year, but forecasts this will rise to $7.9bn by 2005.

Ovum points to several reasons for this massive growth. Firstly, it says that telecoms companies want to cut costs. One way of doing this is to move large corporate customers from dedicated networks to the public switched network.

"We are seeing huge growth in the number of companies taking apart their old dedicated networks. We are getting inquiries by the day from companies who need guiding through the process," notes Mr David Yip, a senior consultant at telecoms specialist Mason Communications – a consultancy spun off from the Costain building group three years ago.

Mr Yip goes on to describe the advantages – and potential pitfalls – that can come from moving to VPN:

"VPN gets away form the limitations of leased circuits and gives the companies the flexibility to connect from anywhere to anywhere. But companies must be careful when choosing their supplier to ensure they get the right level of service. We increasingly focus on what happens when service is not achieved with penalty arrangement and so on."

VPN also offers other benefits. It allows companies to scale their networks up and down more easily and gain cost benefits from sharing a large telecommunications resource.

The other side of VPN is the increasing necessity for telecoms suppliers to innovate. They are faced with an increasingly competitive environment and must find ways to offer added-value services beyond the basic telephone network.

Mr Darren Dumelow, VPN service manager at Energis, says that the VPN approach provides several opportunities for suppliers to offer a better service:

"Private networks do not offer the same flexibility as VPN. If a company wants to add more locations – say, as the result of expansion or a merger – it has to re-engineer the network. With VPN you can just plug the new locations in."

Energis is a prime example of the innovative approach adopted by new entrants to the telecoms market. As a subsidiary of the UK's electricity distribution company – the National Grid Group – Energis has been able to set up a nationwide network of optical fibre following the electricity grid. It uses a technology called Synchronous Data Hierarchy (SDH) [see separate report in this survey] to offer high levels of reliability.

Mr Dumelow notes that this has allowed Energis to keep costs down and pass the benefit on to customers: "It is cheaper for us to run and sell. With fibre optic technology we can carry the bandwidth capacity for new services because we have the flexibility built in," he says.

> **Frame relay technology can improve performance and allow voice and data to be combined on the same network**

The proof of this comes with the success of the service. Mr Dumelow goes on to claim that Energis carries some 50 per cent of the UK's Internet traffic.

Energis also sees the value of offering customers additional services alongside VPN: "We give our customers monthly statistics to show how their VPN is being used. These cover things like national, international and local dial-up use and frequently dialled numbers. This allows customers to see where they can make further savings," explains Mr Dumelow.

Other telecoms suppliers are investing heavily in innovations such as frame relay technology which also gives much greater and more flexible bandwidth. Frame relay technology can both improve performance and allow voice and data to be combined on the same network.

VPN is a natural progression from leased circuits for business telecommunications. Provision of networking services – whether for voice, data or a combination of both – is increasingly turning into a utility service and, therefore, not part of "core" business activities. Furthermore, the nature of the global telecoms market means that prices will continue to be competitive and many organisations will move to VPN.

Energis network management centre: a prime example of the innovative approach adopted by new entrants to the telecoms market

■ **Integrated Services Digital Network (ISDN):** by Richard Handford

Concern over BT charges

The size of the £400 connection charge for joining BT's basic rate service has attracted particular criticism within the industry

Integrated Services Digital Network (ISDN), the service that carries voice, data and video through a single line, has taken off as one of the most successful of UK telecommunications services in the past two years, but has yet to become the most loved among users.

The end-year number of ISDN connections is predicted by the Yankee Group Europe consultancy to show 300 per cent growth to 177,000 since 1994. But complaints are set to continue over the charges made by British Telecommunications, which controls more than 90 per cent of the market, for initial connection and quarterly rental of its ISDN services.

"Despite BT's huge installation and rental charges it does seem that people do actually want to use it," said one leading industry observer who cited file transfer, back-up to private circuits, local area network (Lan) interconnection and videoconferencing as the most important ISDN applications. Access to the Internet is often given as one of the reasons for ISDN's recent popularity but is, in fact, still a relatively minor use.

The size of the £400 connection charge for joining BTs basic rate service for small and medium-sized users, which is called ISDN2 and offers two 64Kbit/s lines, has attracted particular criticism within the telecoms industry and for putting off potential users. Fixed charges for BT's ISDN 30 primary rate services, which offers up to 30 64Kbit/s lines and is aimed at larger corporate users, also draws criticism but the basic rate takes the most flak.

Critics argue that impressive UK customer growth disguises how the UK is far behind comparable European markets, thanks to BT's connection charges. France and Germany had 298,000 and 680,000 ISDN connections respectively at the end of 1995.

BT argues in its defence that Germany, in particular, has a far less developed market for private circuits which many UK users take as an alternative to ISDN. The company also points to Oftel's decision in March not to introduce a price cap to limit rises in ISDN connection charges, as proof that it is not overpriced.

The regulator said that, overall, the UK was "close to the top of the league" compared to carriers in France, Germany, Australia, Sweden and the US when usage costs were taken into account, as well as rental and connection charges. ISDN usage is charged at the same rate as normal telephone charges.

Oftel, however, made this judgment on the balance of a broad range of evidence supplied by Manchester-based telecoms, IT and security consultants Mason Communications. A detailed reading of their work for Oftel reveals a mixed picture.

Mason Communications shows that just for connection charges BT finishes near the bottom of the six countries – for basic rate it actually finishes sixth but it moves up in an uneven way, with the inclusion of usage charges.

For large companies, making a large number of calls, the UK ranks second behind Sweden but its position deteriorates with medium and small-sized businesses.

For medium-sized customers with a high usage, the UK maintains its second place but it drops to fourth with low usage. Among small users, the UK finishes fourth for both high and low usage.

BT faces little competition in basic rate services, which account for more than 70-80 per cent of total ISDN connections in the UK although only one third of new lines installed. Since the launch of BT's service in 1991, only a few other carriers have entered the market. Mercury was the first, in 1993, and has since been followed by Energis and a few cable television operators including Midland Cable and Diamond Cable. The primary rate market is far more competitive with rivals to BT including Mercury, City of London Telecommunications (Colt), MFS, Energis, Scottish Telecom and most of the cable television operators.

However, BT's main competitors, Mercury and Energis in basic rate, can only offer services indirectly over BT's network because it is not economic for smaller customers to pay for their own links direct to their networks. Hence customers must pay the cost of subscribing to BT's basic rate service to access those of Energis and Mercury.

"Rental and connection charges are just silly," says Mr Richard Goodwin of the Dixon-Goodwin telecommunications consultancy. "It's monopoly pricing."

> **Oftel concluded that BT's costs included a big proportion of overheads**

BT says it has no intention to bring down its prices: "If anything, the pressure is on us to increase connection charges because we make a loss on it," says to June Campbell, BT's ISDN marketing manager. But Oftel's investigation earlier this year concluded that BT's costs for connections included a high proportion of overheads and would need further investigation.

Mr Keith Mallinson, managing director of the Yankee Group Europe, says there is another reason for BT maintaining higher connection charges:

"BT is much more vulnerable than its European cousins." If BT lowered its charges dramatically then it would not be so extensively compensated for those customers who just use its service as an indirect access to Mercury or Energis, says Mr Mallinson.

But the market could radically alter following the government's award in February of three new wireless licences, specifically for broadband services such as ISDN.

Mercury won one of the licences along with NTL, the telecoms carrier owned by cable operator CableTel, and Ionica, the start-up company which recently launched a wireless telephony service in the east of England.

By delivering their services over radio, the three carriers cut the costs of building their networks and also eliminate the need to pay BT for using its local network. These savings might enable them to significantly undercut BT's rates when they launch services, probably next year, and give a much-needed boost to competition.

The author writes for Financial Times newsletter Telecom Markets

Overview by Stephen McGookin

'Direct Age' is dawning

The marketing potential is enormous. US investment broker Fidelity claims that already one in 20 of its new clients comes to the firm through the Internet

A recent survey of corporate communications executives by global consulting firm Manning, Selvage & Lee indicated that the rush by companies onto the Internet has been driven primarily by what the organisations regard as the potential public relations benefits.

Of the 512 business executives who responded to the Cyber-Dash survey, more than a third said their company had a Web site in operation, while 38 per cent said one was under construction or planned.

While these kinds of figures might call to mind some less-than-serious predictions – that by the end of the century 94 per cent of US businesses would be on the Internet, but only 12 per cent would know why – it would be wrong to assume that the companies who *are* there already are not highly sophisticated.

According to Serafina Espie, European marketing director of M/NET, the interactive marketing arm of Manning Selvage & Lee: "Corporate communicators are relying heavily on interactive technology – and they expect this to grow spectacularly, by as much as 400 or 500 per cent in the next five years."

The marketing potential of the new medium is already immense. US investment broker Fidelity, for example, claims that one in 20 of its new clients comes to the firm through the Internet.

Mr Jonathan Barling-Twigg, KPMG consultant in emerging technologies, said recently that "A basic Internet presence can be established for less than a thousand pounds on an existing PC. These 'beginner sites', however, are quickly becoming obsolete, giving way to more sophisticated and complex projects.

"The hardware and software costs of more advanced sites could easily total £60,000-£70,000. But even this outlay will be far outstripped by the personnel costs involved in establishing and maintaining an effective Internet presence; these could run into hundreds of thousands of pounds a year."

While electronic mail remains by far the leading use of the Internet among businesses, the huge potential for wide-reaching commercial activity is tempered only by the concerns of users about security when considering the Net as a vehicle for commercial transactions.

In the current interim period while appropriate standards are developed – allowing companies to "close the marketing loop" from customer contact to actual sale online – managers are warned that it might be conventional business shortcomings, such as poor service quality, which threaten Internet ventures rather than problems specific to the technology.

Mr Paul Baker of KPMG, co-author of a report *The Internet: A Guide for Business Users*, says most of the high profile security risks, such as unauthorised access, message interception and viruses, are manageable. The challenge for businesses comes, he believes, in the changing nature of the relationship between seller and buyer.

"We are undergoing a transition to a 'Direct Age'," he says, "where the consumer will have more power than ever before and where traditional notions of marketing, sales and distribution are being challenged by more direct and unmediated access to the customer. Many managers interpret this as a threat, which can translate into an over-defensive attitude towards security issues."

He concludes that: "Customer demands for quality of presentation, service, delivery and support are increasing.

"These rising expectations will affect attitudes to all companies, not only those in the electronic marketplace. An excessive concern for security should not be allowed to prevent businesses from tackling the more critical matter of devising an effective business strategy incorporating the Internet."

Internet telephony: by Louise Kehoe

Tricky, cheaper way to chat

PC users are increasingly talking on the Internet instead of the telephone

Slogans such as "Talk to anyone in the world over the Internet. Free!" have drawn an estimated 500,000 people to try out software that enables Internet users to speak to one another via the global computer network over the past year.

With Netscape Communications set to add a telephony program called "Cool Talk" to the next version of its widely used Navigator Web browser, use of the Internet to place telephone calls is expected to expand rapidly.

Talking over the Internet is not as simple as picking up a telephone. The sound quality is often poor and establishing a connection can be tricky. Yet for PC users who are motivated by a slim budget, or a desire to try out the latest technology, Internet telephony is compelling.

For the cost of an Internet access account, computer users can talk to one another at no additional charge, whether they are calling half way around the world or across town. There are, however, some significant limitations to Internet telephony. The biggest is that both parties must be "logged on" to the Internet to connect the call. For most users this means that calls can only be placed at pre-arranged times.

Another problem is that there are few standards in this emerging field. Different programs – and there are about a dozen in widespread use – incorporate various signal compression schemes and differing connection protocols. Thus, in order to communicate, both parties to a call must be using the same software, or programs that employ the same compression and connection methods.

Finding the Internet address of the person you want to talk to can also be problematic. To link two computers via the Internet it is essential to know the address of each computer. Unlike an e-mail address, which identifies a user, the address of a computer on the Internet – known as an IP address – is not necessarily always the same. In particular, many dial-up Internet services assign new IP addresses to users each time they log on.

Most Internet phone calls are therefore connected via a third computer, or server, that acts like a telephone exchange. The server matches the names, rather than the computer addresses, of registered users.

The sound quality of Internet phone calls is also unpredictable. Voice signals sent via the Internet are converted into packets of digital data. In theory, digitised sound should exceed the fidelity of analogue sound signals. However, to match the sound quality of a standard phone call, about 8kbytes of data must be transmitted per second. Yet most PCs are equipped with modems that transmit and receive data at much slower speeds. In practice, a 28.8k modem is needed to achieve reasonable sound quality. Signal delays that insert awkward pauses into a conversation are also inevitable in Internet telephony. This is because the signal passes through dozens of other computers before it reaches its destination.

There are more than a dozen Internet telephone software programs available and many can be used on a trial basis without charge. Cool Talk, for example, is currently available in the beta trial version of Netscape Navigator 3.0 and can be downloaded from Netscape's home page on the Web.

Another recently introduced Internet phone program is WebPhone, from NetSpeak, a Florida software developer. Launched in March, WebPhone, and a companion product called Business WebPhone System aimed at business users, provide full duplex communication and have an attractive "cellphone" style user interface. A free trial version of WebPhone can be downloaded from the company's Web page *(http://www.netspeak.com)*. The retail version costs $50.

Cu-SeeMe, a program developed at Cornell University adds another dimension to Internet telephony with audio and video conferencing over the Internet. In use by more than 500,000 Internet users, the program has a strong following.

An enhanced version of Cu-SeeMe was recently launched as a commercial product by White Pine Software of Nashua, New Hampshire, *(http://www.cu-seeme.com)*.

Real time video and audio conferencing can be achieved with a 28.8k modem, while audio conferencing is available on a 14.4k modem.

Despite its limitations, the growth of Internet telephony is prompting concerns among some US long-distance telephone companies. In March, the America's Carriers Telecommunications Association, which represents 130 long-distance telephone companies that serve the needs of small businesses, called on the Federal Communications Commission to regulate Internet telephone software suppliers as if they were telephone companies.

ACTA argues that Internet telephone software companies are competing unfairly in the long-distance telephone service market because they are not subject to the same FCC regulations that govern traditional long distance carriers.

The largest US telephone companies including AT&T, MCI and Sprint have, however, distanced themselves from the group and see the development of Internet telephony as a potential new business opportunity.

Moreover, software developers and their customers are vehemently opposed to any kind of regulation of voice messaging on the Internet.

"ACTA is, in effect, attempting to eliminate outside competition by banning emerging technologies," says Mr Jeff Pulver, chairman of "Voice on the Net", a coalition of software developers opposed to regulation.

Given the trend toward deregulation of the US telephone industry and the recent passage of new legislation that encourages open competition, it is unlikely that the FCC will rule in favour of the telephone companies, analysts predict.

However, the Commission has accepted ACTA's petition for consideration and is expected to rule on it later this year.

Multimedia systems: by Philip Manchester

A revolution seems feasible

The beginnings of lower-quality, mass market multimedia services are already in existence – with the Internet acting as an important stimulus to innovation

The transformation of telecommunications networks into channels for multimedia has reached a critical stage. Traditional telecoms suppliers – who are part of the way through a massive re-engineering of their networks – are having to adapt to new market conditions. And they face competition from cable and satellite suppliers and a plethora of new "service" operators.

At the same time, raw telecommunications is fast becoming a commodity with a decreasing profit margin. In the future, revenues are expected to come from added-value services.

Multimedia applications are the catalyst for much of this activity – but multimedia faces a crisis of credibility in the business market. Early enthusiasm for what appeared to be a revolution in communications has faltered and businesses are looking for viable applications.

Part of the problem lies in the tendency for technology suppliers to oversell new ideas before they are ready.

"Expectations in the area of videoconferencing are being downgraded and there is a general re-assessment of multimedia telecommunications going on at the moment," says Mr Ian Holt, a managing consultant specialising in telecoms at UK company Logica.

"It is still early days to fully understand what multimedia will develop into. A year ago, telecoms suppliers were looking at video-on-demand, home shopping and video phones. But the trials have taken a long time and they have not come up to expectations," says Mr Holt.

Mr Tom Cooper, marketing vice-president of the US networking technology company ATML, says that too much emphasis has been put on the technology – and not enough on how it can be used:

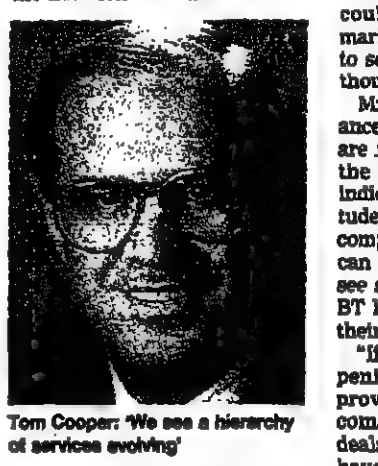
"Clearly, new kinds of services based on multimedia technology are beginning to emerge. In the US, for example, Nynex is looking to provide more than just voice on its network. We see a hierarchy of services evolving to solve different problems. At the top end you have high-quality services which some companies will be happy to pay for and, further down, less expensive, lower quality services for the mass market."

The beginnings of lower-quality, mass market multimedia services are already in existence – with the Internet acting as an important stimulus to innovation. Although the bandwidth – the capacity a network has to carry information – is still insufficient, the Internet is a pointer to the type of multimedia service which might emerge.

"I think one of the interesting applications of multimedia is the use of audio and video on the Internet," observes Mr Ernie Radowick, director of the entertainment group at US software giant EDS. "Although there are certainly limitations on quality because of the low bandwidth, it is beginning to happen. As the bandwidth increases we will see videoconferencing over the Internet coming into its own.

"Videoconferencing has been around a long time, of course. But it takes a lot of effort to set it up and it is expensive. With the Internet you will be able to log on from the desktop and do it," he adds.

Mr Radowick also sees significant scope for multimedia in distance learning applications. He says EDS has already made some progress in using the technology to educate its own staff: "Much of our internal training is now carried over the network and uses full mul-



Tom Cooper: 'We see a hierarchy of services evolving'

timedia technology. A lecturer can deliver a virtual seminar to students all over the US. Students are equipped with keypads and audio-video to ask questions and respond to the lecturer."

Mr Cooper of ATML sees financial services companies being among the pioneers of multimedia, however:

"The emphasis in financial companies is to go for multimedia. Merrill Lynch [largest US securities house] has re-engineered its networks to carry new services. It is not just about closing transactions faster or managing data. It is about finding new ways to present financial data. It's all becoming so complex that in a few years all financial applications will be using multimedia to present data in new forms."

Telecoms suppliers are under increasing pressure to provide more bandwidth at a reasonable price so that multimedia applications can really start to deliver. But there are other dimensions to this. Mr Holt of Logica says: "Telecoms suppliers are competing in a different market to the one they are used to. In the past they were in a position to dominate their markets and they thought they could grab the multimedia market. But they are beginning to see it is not as easy as they thought."

Mr Holt points to the alliances that telecoms companies are forging with innovators in the services market as one indicator of a change of attitude: "The successful telecoms companies will be those which can adapt and you can already see some of the big names like BT looking for ways to expand their services.

"If you look at what is happening with Internet service providers, for example, telecoms companies are signing deals with the new players. We have several projects on the go with telecoms companies to help them change and see how they can meet the new market."

Mr Cooper of ATML sees a similar pattern in the US: "Multimedia is leading telecoms suppliers into new businesses so you see AT&T, for example, spinning off services and content providers because it is more profitable to do this. NCR and Lucent are two examples."

While the real benefits of multimedia telecoms are still in the imagination of marketing vice-presidents, the possibilities are beginning to become apparent. With improvements in bandwidth and lower telecoms costs in sight, a real communications revolution looks quite feasible by the end of the century.

Online security: by Alan Cane

Dealing with Flash Harry

Online retailing depends on replicating the security conditions of a real shop

On the Internet, as a colleague is fond of observing, nobody knows if you are a monkey. In cyberspace, in other words, there is no way of determining the probity of an individual or organisation from an electronic image.

Harry's Half Price Corner can seem as respectable as Harrods, especially if Flash Harry has the gall to name his website "The Harold Hardman Partnership. Purveyors of Fine Goods since 1884" or some such label indicating irreproachable integrity.

The immediate consequence of this inability to distinguish dishonest from honest digits is a compelling need, first, for adequate security systems on the Net and, second, for reliable payment mechanisms.

Without these safeguards, Internet commerce is unlikely to prosper.

The aim must be to create a similar sense of confidence about online purchases that customers have about buying real goods in a physical store. Difficult philosophical questions about ways of creating a sense of "place" and for building and maintaining trading reputations have to be addressed.

Pressure is already growing for solutions. Barclays, the first UK bank to establish an Internet presence, discovered that an overwhelming proportion of the larger UK companies see the Internet as a business opportunity when it surveyed the market.

Almost half of the 200 companies polled said they would use the Internet to order and purchase goods or supplies from other companies while 40 per cent thought it would be most useful for advertising, and 44 per cent as a channel to sell goods and services direct.

But almost three-quarters of the companies surveyed were concerned about the lack of security. As Mr Paul Farrell notes in the *Investor's Guide to the Net** in a discussion about the risks to banks and retailers:

"These financial giants are exposed to gigantic frauds. They are exposed to massive cyber-theft of customer and card holder account records and deposits, with little protection. The development of secure systems to protect businesses, banks and corporations will protect the individual consumer as well."

Internet transactions at present are chiefly based on credit cards for payment but there are serious risks in sending credit card data over the Internet without secure encryption – coding – to disguise the information.

Daniel Lynch and Leslie Lundquist argue in *Digital Money***: "Perhaps the biggest problem facing Internet-based businesses now is the lack of a single data security standard to shield their customers' credit card numbers from fraudulent use.

"Add to that the technical effort required to support transactions across a plethora of Internet browsers (software to make scanning the Internet simpler) with different abilities and features and it quickly becomes clear that all is chaos."

Progress is being made, however. Visa and Mastercard are working jointly on a standard – Secure Electronic Transactions – which may become the global standard.

This should, however, be regarded as a halfway house to the ultimate goal of digital cash.

A number of companies, including Cybercash, Digicash or First Virtual Holdings, already offer payment services which approximate to digital money.

Digicash, for example, works with banks to provide an electronic equivalent of travellers' cheques.

The customer buys electronic money from a co-operating bank using a credit card or debit card. In return, the bank sends an electronic mail message containing money in the form of encrypted 64-character numbers. Each number represents a specific amount of cash.

To buy a product over the Internet, the purchaser sends the merchant the number or numbers corresponding to the purchase price. The merchant sends the number to the bank, which credits his or her account with the cash. The bank takes responsibility for keeping a tally of numbers used or lost.

Microsoft, the world's largest software company, has formed an alliance with Visa International, the credit card operation, to provide Internet purchasing services while Netscape Communications, developer of one of the most popular Internet browsers, is working with First Data, a large bank-card processing company, to create an online payment system.

All these systems depend on secure cryptography. The most popular encryption technology is provided by RSA Data Security. It is an example of "public key" cryptography which depends on two encrypting devices, one freely available, the other known only to the recipient.

The future of online payment, however, may lie with the "electronic wallet" a "smart" or computer card which can be charged, remotely if necessary, with electronic money. Electronic wallets are secure, easily transported and can hold vast amounts of information including an audit trail – which may be important for legal reasons.

They are virtually impossible to counterfeit.

In the UK, trials are already in progress using an electronic wallet called "Mondex" for conventional shopping. It is too early to say whether Mondex or cards like it will replace notes, cheques and bank cards. But it may be the answer to cash transactions in cyberspace.

**Investor's Guide to the Internet, Paul B. Farrell, John Wiley & Sons; £18.99.*

***Digital Money, Daniel Lynch and Leslie Lundquist, John Wiley & Sons: £17.99.*

TELECOMMUNICATIONS IN BUSINESS

Tough decisions for telecoms managers

Radically new products and services are on the way which promise better ways of doing business. Selection will become even more difficult for telecoms executives. Alan Cane reports

The telecommunications business provides incontrovertible proof of the effectiveness of competition in forcing down prices and broadening options for customers.

Telecoms managers working in countries where telecoms markets are open are spoilt for choice compared with their counterparts in more restrictive regions. In the past 12 months, a number of events have conspired to widen that choice still further, while making choice and selection even more complicated for telecoms executives.

First, a global pact on telecoms liberalisation could be in place by the beginning of 1998 after the 53 nations involved in World Trade Organisation talks decided to postpone the deadline for agreement until February next year. According to the US-based Institute for International Economics, an accord could save telecoms customers in developed and developing countries more than $1,000bn over the next 12 years in lower charges, better service and more advanced technology.

January 1, 1998, is also the date when telecoms services and infrastructure across the European Union should be opened to full competition, with the prospect of lower prices for all European customers. At present, a national long-distance call in Germany, where Deutsche Telekom retains its monopoly, costs 78p for three minutes, while in the fully liberalised US and UK the same call costs 37p and 19p respectively.

Second, President Bill Clinton opened the floodgates for change in the US when he signed the 1996 Telecommunications Act, a document which tore down the competition barriers between local, long-distance and cable television operators. Every residential and business user of communications will be affected by the legislation which essentially allows more companies to compete in more US telecoms markets.

Immediate responses to the threat of increased competition have been seen in the mergers of SBC Communications and Pacific Telesis and Bell Atlantic and Nynex, all "Baby Bell" regional operating companies.

MFS, a US-based business telecoms operator, says: "The challenge for users will be to decide which services and features are most important to them and then to identify the provider that can best serve their needs. Providers will differentiate themselves by emphasising the strengths they can offer such as the benefits of diversity among suppliers, back-up protection through redundancy or simplicity through streamlined and consolidated service offering."

National Utility Services, an international cost control service, noted that competition drove international call prices down 35.7 per cent last year in the US but that customers were not necessarily experienced enough to take full advantage of the decline:

"As competition continues to force prices down, both consumers and suppliers are looking for simpler charging formulas, such as pegging costs to a flat rate rather than varying charges based on the time of day.

"There was a strong push towards individually negotiated contracts. Although in the past this was only open to large users, smaller business users who may only have a $3,000 spend are now able to capitalise on these arrangement," says the cost control service.

It warns: "The bottom line is that while most end-users are able to negotiate their contracts, few fully understand the ground rules or how to negotiate the most successful contract terms and conditions."

Third, in a sharp change of strategy, some of the world's largest telecoms operators, among them AT&T of the US and British Telecommunications of the UK, are offering low-cost access to the Internet, the global network of computer networks.

Most telecoms operators offer business Internet access already; the significance of the new move lies in the implication that the operators are taking seriously the threat of Internet telephony – voice communication across the Internet – which could seriously damage their long-distance and international revenues.

In the longer term, multi-billion-dollar satellite projects are in progress which by 2000 could see business people able to keep in touch at reasonable cost using a mobile phone from virtually any point on the Earth's surface. One of the consortia planning such a system, the London-based ICO Communications, expects initial handset prices of about $1,000 with calls charged at $1 or $2 a minute.

In addition to developments designed to cut the costs of telecoms, radically new products and services are available or in the pipeline which promise new and better ways of doing business. Telecoms operators, faced with declining growth in revenues from traditional services, are anxious to promote these new products and persuade their customers that price alone is not the best criteria for choosing a supplier.

The products include videoconferencing – which has now fallen dramatically in cost, with the availability of powerful semiconductor chips – and computer integrated telephony – computer databases linked to telephone systems – which has found its most immediate use in call centres.

These complex applications require transmission systems capable of delivering substantial quantities of data which explains the current interest in integrated services data network (ISDN) lines and frame relay technology.

Most businesses, however, are at an early stage in evaluating these possibilities. According to a study in the UK by the management consultancy Newburn Consulting, telecoms is seen as integral to business development by most companies but remains a cost to be controlled and reduced wherever possible. Newburn found that six out of 10 companies believed their telecoms strategy was designed to "improve customer service", while four out of 10 believed their role was to "create cost efficiency improvements".

It identified four kinds of telecoms users:

- First: telecoms-propelled organisations which place a high value on telecoms and IT and spend commensurately;
- Second: frustrated visionaries with fine strategies but no funds to back their ideas;
- Third: reluctant investors who place little value on telecoms and IT but are still prepared to make big investments where necessary; and
- Fourth: the unconverted who neither believe in, nor invest in, telecoms.

Newburn's analysis of telecoms strategy in the companies it examined is particularly interesting. It suggests that companies are facing the same kind of dilemmas over strategic investment in telecoms that they faced in computers and information technology in the 1980s: "On the evidence of this survey of leading users of telecoms and information technology, less than half have strategy and investment plans and budgets aligned in pursuit of consistent business goals."

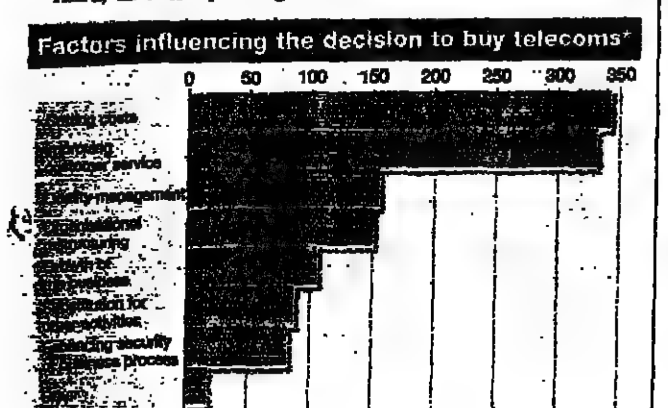
Newburn says that what a company declares to be important in terms of its telecoms strategy and how it spends its telecoms dollars do not always match.

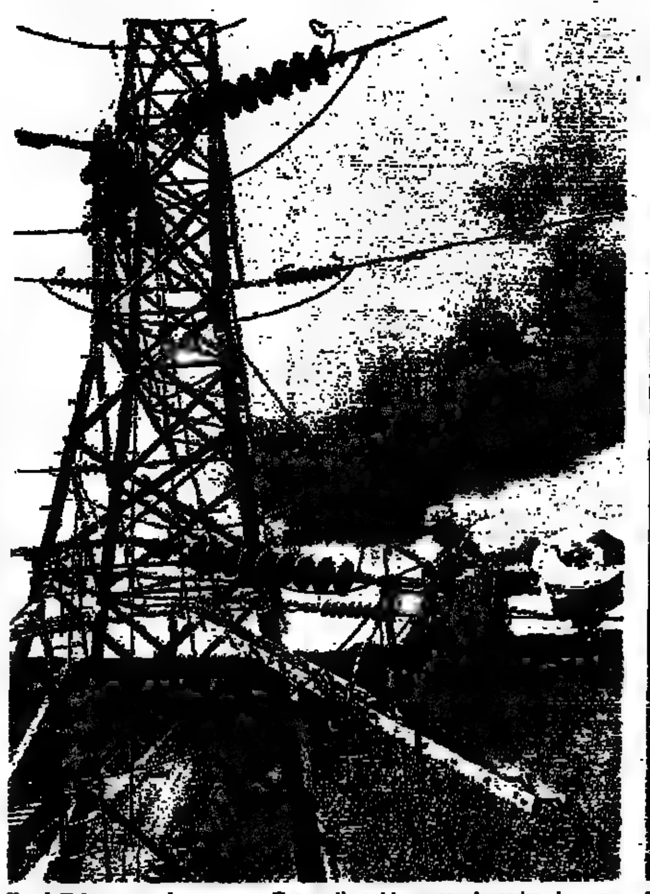
The excitement in the 1980s over IT was stoked by consultants who recognised the power of the new technology but did not always appreciate organisations' difficulties in exploiting it. One of the more thoughtful, Mr Peter Keen, chairman of the International Centre for Information Technologies, explained the problem in a recent article:

"The IT field was talking mainly to itself... the dialogue was among IT people, not from IT to business managers and leaders of business thought."

The 1990s are ushering in an era of cheap, effective telecoms and convergence with data processing and media. But making the right strategic decisions and investments looks as if it will prove more difficult for telecoms managers than at any time since the first business telephone was installed.

Factors influencing the decision to buy telecoms*





Torch Telecom engineers wrap fibre optic cables around overhead electricity lines. Torch serves businesses in Yorkshire and Humberside

Business on the move: Cellnet's mobile data service enables users to transmit information across the network or access data back at the office

Production Editor: Philip Sanders

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■ **International equities:** by Antonia Sharpe

Market's future seems rosy

A variety of offerings can now be tapped by investors from all over the world

These are golden times for the international primary equity market which, thanks to the global mergers and acquisitions mania of the past year, finally boasts the variety of offerings which its name suggests. "The market has never been more busy," says Mr Ian Hannam, a director of Robert Fleming, the UK investment bank.

Only a few years ago, the market catered almost exclusively for the UK government's privatisation programme but it has now developed into a global market which can be tapped by a broad range of equity issuers, from governments in Europe, Asia and Latin America to companies in eastern Europe.

This evolution, from a narrow market which often fell victim to the whims of international investors or the unrealistic pricing by governments selling off state assets, is due to several factors.

Probably the most important is that activity in the primary equity market has been fuelled by the strength of secondary markets around the world.

In the US, there have been instances recently of as many as 19 initial public offerings (Ipos) being launched in one day. New issuance in Europe has not reached such hectic levels but, nevertheless, the calendar for the first half of the year has been very crowded as issuers race to market before the autumn, when Germany's privatisation of Deutsche Telekom is set to dominate investors' attention.

For some institutional investors, such as Mr Ronald Armist, director of Lombard Odier International Portfolio Management, the levels of activity in the primary market are "a good barometer for the state of the stock markets in general".

"I don't believe that the markets are getting frothy because the excesses in the financial arena are not there – wage demands are realistic and inflation is low," says Mr Armist.

In addition, the low-growth, low-inflation environment, coupled with stable interest rates, have boosted the levels of cash which fund managers have to invest in equities. With secondary markets looking expensive, fund managers are turning to the primary market in the hope that the IPO they decide to invest in will outperform existing stocks, thus improving their overall performance.

Over the past year, there have been several offerings which have done just that, from Gucci, the fashion house, to Adidas, the German sports shoe and equipment company. Even recent privatisation issues from France and Italy, once seen as poor performers, have produced such results, notably the sale of shares in Pechiney, the French aluminium and packaging group, and Eni, the Italian oil gas and chemicals company.

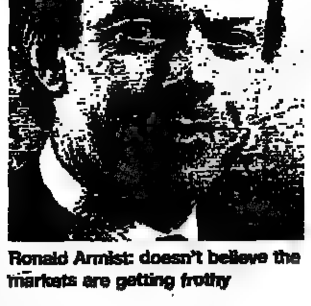
Since privatisations make up such a large part of primary equity issuance in Europe, a series of recent successes – mainly due to realistic pricing and extensive marketing of the company to investors – has made international investors far more willing to take part in future offerings.

But the high liquidity has also been a source of frustration for investors because the supply of new issues has not been enough to soak it all up. This supply-demand imbalance has resulted in many issues being oversubscribed and fund managers receiving less stock than they had applied for. In the recent privatisation of the UK's Railtrack, institutional investors were allocated just 15 per cent of their order.

Levels of liquidity in the market have also been boosted by the internationalisation of fund managers' portfolios, a trend which has become irreversible, says Mr Charles Kirwan-Taylor, managing director and head of equity capital markets at BZW. "International investors are diversified in a way they weren't five years ago," he says.

The diversification of portfolios by US institutions has been particularly important for the development of the international primary equity market and virtually all vendors of equity now include the US in their roadshows.

The growing participation in European offerings by US investors reflects fundamental changes in attitude by European companies. Once reluctant to divulge financial and trading information to shareholders and dismissive of their demands to enhance shareholder value, many European companies have now embraced such Anglo-Saxon concepts.



Ronald Armist: doesn't believe the markets are getting frothy

"The biggest positive for the European equity market is the release of shareholder value," says Mr Armist, pointing in particular to Germany where companies are now issuing share options to senior management as performance incentives and are contemplating share buy-backs as a way to return cash to shareholders.

The greater priority being given to shareholders' wishes should produce a steady flow of primary equity activity as companies unwind cross-shareholdings and demerge non-core businesses, says Mr Kirwan-Taylor. In his view, Germany and Italy are set to be the biggest source of primary equity business as family-owned companies come to market and mutual protection pacts are abandoned.

But while the long-term future of the international primary equity market is rosy, it is still vulnerable to interruptions along the way. Indeed, only a year ago, activity came to a standstill for several months because of hostile conditions in secondary markets.

Mr Armist believes that as long as the current ingredients of low growth and benign inflation remain, the market should not encounter many problems this year. His concern in the near term is that economic growth in the US may accelerate beyond 4 per cent, as several brokers are predicting. Such strong growth would cause an inflation scare, in which case "all bets are off," he says.

For Mr Kirwan-Taylor, the market could be adversely affected by a series of disappointing results from European companies which would raise concerns about a slowdown in economic growth.

Another development which could put the brakes on the market would be the knock-on effect on global liquidity if the flow of money into US mutual funds dries up.

■ **Eurobonds:** by Conner Middelmann

Further record is likely

The strength of the dollar and a more benign economic outlook have had the desired effect

If the first five months of 1996 are anything to go by, the eurobond market is heading for yet another record year.

Despite uncertainty over the direction of US interest rates and a volatile spell in the Treasuries market during the first quarter, US dollar issuance has been booming, fuelled in part by heavy redemptions of dollar bonds and the greenback's strength on the foreign exchanges. A return to a more benign economic outlook and the recent stabilisation of Treasuries has helped further.

The D-Mark sector, too, has seen much new supply, helped especially by continued advantageous interest rate arbitrage in the five-year area. Also, the growing issuance of jumbo Pfandbriefe – bonds backed by public sector loans or mortgages – has kept D-Mark volumes underpinned.

Another important trend in recent months has been increased issuance of bonds by emerging market borrowers. With returns on most top-rated assets having fallen to relatively meagre levels, income-hungry investors have been moving down the credit spectrum to boost their portfolios' performances with juicy double-digit yields.

International bond issuance totalled $288.1bn in the first five months of the year, a significant increase from the $182.2bn issued during the same period last year, according to data compiled by Euromoney Bondware.

US dollar bonds remain the largest segment of the market, making up 38.5 per cent. They are followed by D-Marks which represent 19.4 per cent of bonds issued so far this year, and Japanese yen bonds which make up 8.2 per cent.

Early in the year, the US market was racked by worries over the US government's funding deadlock and the resulting freeze in economic data releases, which left investors in the dark over the likely direction of US interest rates.

"A lot of institutional investors stayed on the sidelines and kept their money in defensive instruments – short-term paper or cash," says a dealer at a UK bank. "They were very reluctant to do anything but stick to their benchmarks."

Much of the slack was filled, however, by retail investors, many of whom had large amounts of cash from bond redemptions to reinvest. According to Euromoney, some $115bn of dollar bonds are due to mature this year, compared with $89bn last year. February saw redemptions of $7.9bn, March of $9.9bn, April of $8bn and May of $9.9bn. December will be the peak month with redemptions of $13.3bn.

Thus, between February and April, the market saw a flurry of short-dated dollar deals targeted primarily at European retail; their enthusiasm caused the bonds to perform so well that institutional buyers often joined in to benefit from the subsequent spread tightening.

Issuance volumes in the dollar market have been inflated by the large amount of global asset-backed securities launched this year. According to Euromoney, the first five months of 1996 saw $25bn of dollar-denominated ABS issues, more than two-thirds of last year's dollar total of $34bn.

Indeed, many syndicate officials grumble that the league tables of eurobond underwriters are unfairly distorted by asset-backed deals. "ABS lead managers always say these deals are global, but the lion's share still gets placed in the US," says a dealer, who feels this gives the big US houses an unfair advantage over their non-US competitors.

US houses hold the top three slots in the league table for the year to end-May: Merrill Lynch is at number one, holding a 7 per cent share of the market with $20.1bn of deals; it is followed by Morgan Stanley with a 6.3 per cent share and CS First Boston with a 5.2 per cent portion. Behind these come SBC Warburg, Goldman Sachs, Deutsche Morgan Grenfell, UBS and JP Morgan.

Stripped of asset-backed globals, mortgage-backed bonds and Pfandbriefe, the ranking looks slightly different: while Merrill remains in the lead, SBC Warburg rised into second place, CS First Boston stays in third place, and Morgan Stanley, which early this year underwrote the largest-ever securitisation, a $4bn issue for GPA, the Irish-based aircraft leasing company, slips into seventh place.

But others say it is not fair to exclude ABSs. "We are seeing increased demand for asset-backed securities in Europe where fund managers are keen to lay their hands on anything that offers a bit more yield – especially something that's highly rated," says one banker. One indication of increasing European interest in ABSs was a successful DM1bn offering for Citibank in April – the first credit-card backed deal in D-Marks.

Meanwhile, the emerging markets have finally overcome the doom and gloom of 1994 and 1995 and have been rallying at breakneck speed, spurring increased issuance activity. According to Euromoney, some $30.5bn in emerging market bonds have been issued in the first five months of the year, compared with $45.7bn in all of 1995 and $40bn in 1994. That includes Japanese Samurai and US Yankee bonds, which remain popular with emerging market borrowers.

"There is a lot of liquidity around and investors want to diversify their portfolios – especially since spreads on triple-A and double-A paper have got very tight," says Mr Richard Luddington, global head of emerging market debt syndicate at JP Morgan. "In many emerging markets, the economic story looks constructive, which is also helping."

In the context of the improving underlying picture – which has triggered credit rating upgrades in some countries – the supply of emerging market bonds has not kept up with investor demand. As a result, yield spreads of outstanding paper over their pricing benchmarks have narrowed sharply. For example, Poland's bonds due 2000 now yield around 75 basis points over Treasuries, compared with their 185 basis point launch spread last June.

Emerging-market borrowers

> The emerging markets have overcome doom and gloom

have also extended their presence along the maturity spectrum. Mexico in January launched a $1bn 5-year global bond, followed by a $1.75bn exchange of Brady bonds into 30-year uncollateralised global bonds in May, highlighting the country's successful return to the international capital markets after the peso crisis in early 1995. Another milestone was passed by Argentina, which placed DM500m of 15-year paper in May.

But some investors still appear to be ignoring the fact that double-digit yields remain justified by higher risks. German and Swiss retail investors – the biggest buyers of South African rand denominated eurobonds – learnt that painful lesson with the 30 per cent slide in South Africa's currency in recent months.

Another risk lies in the likely surge in issuance over the coming months. The emerging-Europe pipeline includes dollar issues for Romania, Slovenia, Croatia, Russia and Kazakhstan, a D-Mark bond for Poland, and several banks and corporate borrowers. In the Middle East, Israel is planning its first dollar eurobond and is set to become a regular issuer. In Asia, several borrowers – mainly financial institutions and corporates – are queueing up for international capital.

Latin America, too, is back with a vengeance: Colombia's government and parastatals are planning forays into various markets; Brazil is considering exchanging some of its Brady bonds for global bonds, the country's power utility Eletrobras is set to raise 5-year dollars in mid-June, and other corporates and banks are keen to join in; Uruguay is planning a eurobond; and Argentina, which has already been a heavy borrower in the first five months, is sure to return.

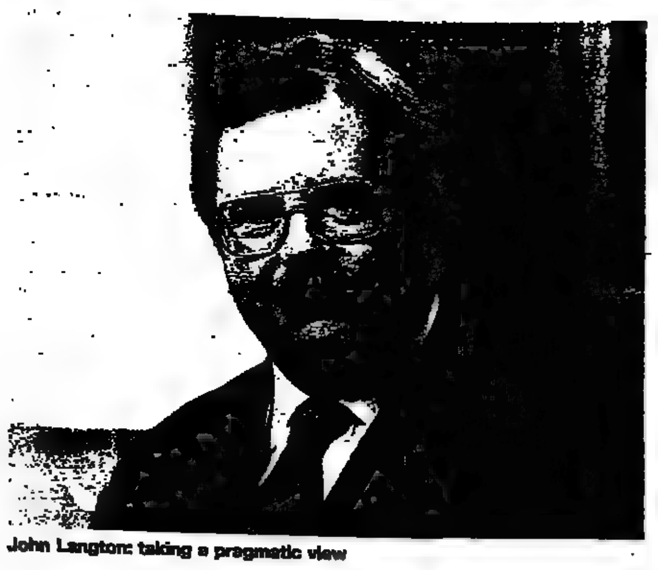
This issuance pipeline may put a damper on spread performance in the coming months, some warn. "Emerging market spreads have come a long way very quickly – there may not be much more scope for narrowing in the near-term," says Mr Luddington. However, he adds: "The trend of investors moving down the credit curve to pick up yield will continue, and the resulting supply and demand imbalance will sustain tight pricings."

He also points out that, unlike 1993, when investors were piling into emerging market bonds almost indiscriminately, "the quality of research is a lot higher now, and most investors have a clearer idea of what they're doing." Moreover, while many investors put most of their eggs in the Latin America basket in 1993, "they are diversifying a lot more now, which provides a natural hedge," he says.

Ultimately, the eurobond market's fortunes – especially for emerging market borrowers – will be closely tied to the US Treasury market.

"If US interest rates start rising that will make life more difficult for all of us," says a dealer. "In a more bearish market environment, investors' ability to differentiate between credits will become more important than ever."

But others suggest that a move to higher absolute rates could actually trigger investor demand for US dollar paper. "Some fund managers have indicated an interest to reappraise their allocations if and when 10-year Treasury yields climb above 7 per cent," says Mr Roger Bates, director bond syndicate at Deutsche Morgan Grenfell.



John Langton: taking a pragmatic view

■ **European single currency:**
by Richard Lapper and George Graham

Contracts may be at risk

Litigation seems inevitable if the currency in which bonds are issued ceases to exist

Capital markets trade associations, European Union officials and lawyers are generating mountains of paperwork as they tangle with the potentially complex legal ramifications of the single currency.

Since the Madrid summit of European finance ministers last December underlined the European Commission's determination to press ahead with the single currency project, the amount of attention and research devoted to the problem has multiplied.

Mr Cliff Dammers, secretary-general of the International Primary Market Association, an organisation which is involved in a number of separate initiatives, says: "Six months ago I had an inch of paper on my desk. It is now two feet high. There is an enormous amount of work going on."

Worries centre in particular on the potential disruption to long-term financial contracts that the single currency project might cause. In particular there are fears that issuers or investors in bonds, issued before currency union was first announced, might invoke the "change of circumstance" clauses of contracts, if the currency in which the bonds were dominated no longer exist.

> In the swaps markets the implications of the move to the euro could be even more problematic

The language in these contracts usually applies not just if either party is unable, through reasons beyond its control, to fulfil its side of the contract, but also if the nature of either party's obligations has been radically altered.

Hence, even if you could argue that it is perfectly possible to deliver euros instead of D-marks, your counterparty could still plausibly argue that the nature of the obligation has been radically altered.

Under rules announced in Madrid, a 10-year German government bond would be converted into the new European currency, the euro, at an agreed exchange rate and would pay the same rate of interest.

However, since the new currency would be likely to be weaker than the D-mark, investors might see their interest as being prejudiced and take legal action. Issuers of bonds in softer currencies, like the lira, which would be replaced by the harder euro, could also see themselves disadvantaged.

In the swaps markets the implications of the changeover to the euro could be even more problematic, especially where the swap contract involves the exchange of two separate European currencies, both of which would merge into the euro.

A number of players now regard some kind of litigation as inevitable and are working to reduce its potential scope and impact on the market. "We are taking a pragmatic view that litigation will almost inevitably happen," says Mr John Langton, chief executive of the International Securities Market Association. "At the end of the day we know someone is going to go to court. That is quite clear."

Mr Colin Bamford, chief executive of the Financial Law Panel in London, says that in most cases a body of international private law covering monetary issues should prevent disputes. This provides that jurisdictional authority in the event of a dispute is ceded to the courts of the country which has introduced the new currency.

But he says problems could emerge with more unusual contracts "relying on a finely balanced relationship between currencies. The concern is that you disrupt the underlying purpose so that the parties no longer have what they started out with," he says.

In any event, legislation being prepared by the EU should at least limit the scope for dispute. A draft of an EU regulation – a legislative instrument which has more direct effect than a directive – is expected by the end of the year and should make it clear that the change of circumstance provisions would not be triggered by the introduction of the single currency, unless the parties had specified in their contract that they should be.

Lawyers are divided about how detailed the regulation should be: should it state a simple principle of the continuity of contracts or should it be more proscriptive, envisaging in the words of one observer "thinking of all the problems you can think of and covering them all"?

To complicate matters further, it is understood for example that two EU directorates – DG2 and DG15 – as well as the European Monetary Institute – are preparing their own versions of the regulation. Against this background a City of London working party, set up by the International Swaps and Derivatives Association (Isda), the London Investment Bankers Association (Liba), the British Bankers Association (BBA) and the International Primary Markets Association, submitted its own version of a draft regulation to the EU last month.

Separately, the Financial Law Panel, together with officials from the EMI and the EU, is making progress on another front. The panel, set up by the Bank of England and the City Corporation in 1993, is carrying out a study of the impact of the single currency in the main financial and trading jurisdictions outside the EU. "We need to find out exactly what the position is under Japanese or New York law," says Mr Bamford. Many swap market transactions are worded according to New York state law, for example.

> Trade associations are beginning seriously to address administrative issues

Elsewhere, Isda has four working parties looking at the legal, accounting, tax and other implications of the single currency in the swaps markets, while a range of other bodies – including the City of London Law Society, the BBA and Liba – are also involved in a series of separate initiatives.

Meanwhile, at a more practical level trade associations are also beginning seriously to address administrative issues. At present, the bond market conventions vary in different European markets. The calculation of accrued interest and settlement times, for example, may seem highly technical but is significant for those involved.

Mr Langton is confident that the markets can develop ways to treat these issues in a uniform manner. But he acknowledges there could be short-term difficulties. Above all, though, there is an increasing pragmatism about the market's approach. "It is going to go ahead and one has to work on that premise," he says.

■ **Government bond markets:** by Samer Iskandar

Fall in volatility forecast

The next changes in interest rates are likely to be part of a process of fine tuning

Almost halfway through 1996, the direction of the main government bond markets is still unclear. In retrospect, the previous – very volatile – two years seem to have been almost predictable.

One main source of uncertainty is the direction of US Treasury bond yields, from which most international markets derive their inspiration. Mr Ian Beauchamp, chief economist at Hambros Fund Management, predicts that the yield on the 30-year US Treasury bond will trade down towards a range of 6.0 to 6.5 per cent, from its current range of 6.5 to 7 per cent. But Mr Paul Abberley, head of fixed income at Lombard Odier, is less optimistic and does not rule out a rise in the long bond's yield to around 7.5 per cent before the year-end, especially if releases of economic statistics continue to show upward pressure on wages.

However, despite their differing projections, most analysts have one view in common: they predict a noticeable decline in the volatility of bond prices in the coming months. Mr Abberley explains that "the difference with 1994 is that (market participants) today are more relaxed about inflation". And he does not foresee any dramatic change in inflationary expectations.

According to Mr Abberley, the economic situation – and consumer behaviour in particular – is such that inflationary pressures are "very unlikely to be passed on to the final consumer". An increase in wages, for example, would destroy itself by stifling growth before it is reflected in the prices of final goods.

Mr Beauchamp at Hambros concurs. He is convinced that several consecutive years of stable and moderate inflation – in the range of 2 to 3 per cent annually in the US and the main European countries – have finally altered traders' perception of monetary policy, reinforcing the belief that inflation is under control. While most bond markets fell some 20 percentage points in 1994 and rose by approximately as much in 1995, the volatility of future trends is likely to be more limited.

Although interest rates in the coming months – as reflected in the prices of futures contracts – are expected to rise during and after the summer, Mr Beauchamp does not detect any fear of durable monetary tightening. "Market participants now realise that the next changes in interest rates will be part of a process of fine tuning". Only a brutal and unexpected surge in prices, a very unlikely occurrence in the opinion of most experts, would change traders' perception that central banks now have inflation under control.

Other important events also took place since the beginning of the year, including the cross-over of German yields below those of US treasuries. This was made possible by the expectation that the US Federal Reserve would soon be compelled to raise interest rates to quell inflationary pressures due to an unexpectedly tight labour market. Meanwhile, strong indications that the German economy was about to witness a second consecutive quarter of negative growth revived expectations of rate cuts by the Bundesbank.

This led to speculation that the German market was "de-coupling" from the US, or gaining the freedom to rally against the background of a retreating Treasury market. But after some short-lived optimism it became clear to analysts that de-coupling was, at best, a relative concept. "What it means," says said one trader, "is that bunds can outperform treasuries temporarily. But nobody expects the German market to rise continuously against a falling US market."

The convergence of Europe's higher yielding markets towards German bund yields was also one of the most significant events of the past few months. Since the end of 1995 the 10-year yield differential between Italian BTPs and bunds narrowed from 475 basis points to around 300 basis points. Over the same period French OAT yields erased a 1 percentage point premium over German yields and even traded at a yield discount on more than one occasion. Irish, Spanish and Swedish bonds followed a similar pattern. Expectations that European monetary union was likely to be achieved within the time-frame set at the Maastricht summit were the driving force behind the phenomenon.

Paul Abberley: does not rule out a rise in bond yields

Many economists are confident the convergence process will continue in the coming months. Mr Abberley at Lombard Odier and Mr David Brown, chief economist at Bear Stearns in London, both expect the Italian 10-year spread over Germany to tighten to around 250 basis points. This view is bolstered by strong hopes that the Italian lira will re-enter the European exchange rate mechanism, perhaps even before the end of this month.

"In the current inflation outlook, 250 basis points represent a fair inflation premium" given the two countries' inflation record, says Mr Abberley.

However economists are less confident over the future of French yields. Ms Phyllis Reed, European bond strategist at BZW, is particularly bearish on the yield spread of OATs over bunds. Pointing to fiscal worries and the lack of "strict exchange rate stability", Ms Reed predicts that French yields will rise to around 20 basis points above those of German bunds in the coming months. But Mr Beauchamp is somewhat less bearish. The value of the Euro "will almost certainly be somewhere between the French franc and the D-Mark", he says.

"No-one expects it to be as solid as the D-Mark any more", unlike the prevailing opinion six months ago. If this situation were confirmed it would justify a higher yield on bunds on the grounds that their holders are likely to sustain a currency loss in the move to the single currency.

Analysts also depict a bleak outlook for UK gilts, citing rising political risk, as well as a larger-than-initially-announced public sector borrowing requirement, now widely believed to surpass the £30bn level for the current fiscal year.

But bearishness reaches new limits on Japanese bonds. Although BZW recommends an "aggressively underweight" stance, some market participants are even more pessimistic. "Is it possible to achieve a positive yield in a market where the government is simultaneously seeking to devalue its currency and raise interest rates?" asks one trader.

Syndicated loans: by Nigel Pavey

Borrowers face a tougher line

Lenders are now more astute, looking for firm proposals instead of vague promises

The spectacular borrowing boom in the international syndicated loan market looks set to slow over the next few months with volumes falling from record levels and lenders taking a tougher stance against over-ambitious top rated borrowers.

Bankers engaged in the syndicated loan business have been enjoying unparalleled volumes over the past two years – driven by falling margins, longer tenors and more relaxed loan documentation. In such an environment, many of the market's top borrowers have chosen to refinance existing loans and lock-in aggressive pricing well into the next decade. Few deals have failed to sell and the market is now catering for a more diverse group of borrowers than ever before across the full credit spectrum.

The syndicated loan is firmly re-established as a favoured instrument offering all manner of borrowers the cheapest and most flexible source of funding in the armoury of instruments available in the international capital markets.

Over the past two years pricing has fallen by some 40 per cent annually and is now at levels not seen since the late 1980s. For top-rated borrowers, pricing has clearly bottomed out and there are already indications that lenders are starting to take a tougher stance towards this group of borrowers – although there are no signs of upward moves as yet. Most senior bankers feel that pricing is unlikely to rise, and instead that a more rational approach is being adopted in lending to top quality names than was the case just a few months ago.

Several recent syndications show that a top credit rating no longer assures a borrower of the solid support of its bankers and that lenders are starting to look at the overall relationship they have with a corporate to seek justification for making thinly priced loans.

Well-regarded borrowers with plenty of ancillary business to hand round to their relationship banks are still enjoying unparalleled access to cheap bank finance.

Companies such as Veba and Merck easily achieved significant oversubscriptions with their loans. South African-based Anglo American Corporation of South Africa achieved a tremendous success with its debut $1bn revolving credit. The facility, which commanded fine pricing, showed that five-year money was available to South African corporates and set the new benchmark for that country.

French social security deficit financing agency Caisse d'Amortissement de la Dette Sociale (Cades) showed just what can be achieved in the syndicated loan market with its inaugural FFr60bn financing. The facility, which marked the start of a FFr140bn financing programme, was split between a one-year portion priced at 4 basis points over Libor and a five-year facility priced at just 6 basis points above Libor. This pricing was the finest yet seen by the syndicated loan market and came well inside that paid by other European sovereigns.

Cades, with its plethora of business to offer international banks over the coming years, had no difficulty in achieving a very heavy oversubscription through the carefully managed operation. Demand for the facility was much greater than had been anticipated, although fewer than 70 banks were invited to participate. Even so, there were several surprise turndowns in syndication.

However, the recent syndications for CS Holding, National Grid and Railtrack clearly illustrate the perils of well-regarded borrowers seeking too fine a price from their bankers.

The central concern for many of the banks reviewing these three loans was the realistic level of ancillary business that the companies would be likely to generate. In the case of National Grid – which sought to establish a £800m seven-year revolving credit priced at a mere 12.5 basis points rising to 13.75 basis points over Libor – a number of the power company's core lenders could not see enough business coming their way over the life of the loan and opted not to support the deal. However, their places were filled by other banks.

Lenders are now becoming much more astute in their lending analysis with many employing sophisticated risk/return models that need to be satisfied – and with pricing now so low the level of ancillary business on offer is crucial. One senior London-based banker notes that "ancillary business is now becoming a very mature debate. We are no longer looking for vague promises, but instead firm proposals." This is a sentiment that is increasingly shared by many of the market's major lenders.

Top 10 International loan arrangers 1995*

	Name	Amount	Number	Share
1	Citicorp	$37.3bn	193	8.0%
2	JP Morgan	$32.5bn	88	7.0%
3	NatWest Markets	$24.8bn	245	5.3%
4	Deutsche Morgan Grenfell	$23bn	165	4.9%
5	BZW	$22.1bn	130	4.7%
6	Union Bank of Switzerland	$19.1bn	137	4.1%
7	Chemical Bank	$15.1bn	102	3.3%
8	ABN Amro Bank	$14.5bn	163	3.1%
9	Bank of America	$13.4bn	129	2.9%
10	HSBC Group	$12.7bn	133	2.7%

*Signed loans only. Source: Euromoney Loanware

As another senior banker observes, a little bit of reality is creeping into lending decisions. In the highly competitive banking market, most active participants are looking to either protect existing business or have well-defined offers of new business to justify their support for cheap corporate loans.

To an extent, the more sophisticated borrowers are starting to understand that their lenders are becoming very concerned with what one bankers calls relationship profitability and realise that, above all else, lenders want to earn fee income from their ongoing relationships. With this in mind, many corporates have been reducing the number of banks in their syndicates to a size where all parties can realistically have the opportunity of a profitable relationship.

The caution creeping into the market at the top end of the credit spectrum has not, however, spread throughout the syndicated loan market. As the volume of business from leading investment grade credits starts to wane, competition for mandates from smaller companies has never been more intense. Pricing for second-tier names is consistently falling and this is likely to be a major theme for the rest of 1996 with fewer basis points separating the different types of credits accessing highly liquid bank lenders through the syndicated loan market.

Over the past few months, many middle-sized companies from Scandinavia and, to a lesser extent the UK, have been making their debuts in the market with relatively small deals on similar terms to those won by the best names just 18 months ago.

Competition for such business is very intense with more syndication teams in existence today than ever before. The recent wave of bank mergers has done little to reduce competition in the loan market, which is still experiencing very high levels of liquidity. With pricing already at such low levels, there is little room left for arrangers to negotiate in. In some cases, this is leading to status-conscious lenders offering some remarkable terms to potential borrowers. Says one top arranger: "If I believe all that I hear from clients, there must be banks doing this business (arranging loans) for free." Another adds: "Bankers are getting over-eager and over-aggressive, knowing that they won't win the mandate, but trying to make an impression with the borrower to gain status."

Figures from Euromoney Loanware show that the volume of international loans leapt by 64 per cent to $470bn in 1995, compared to the $287bn raised in 1994. The number of transactions signed was also up from 2,685 in 1994 to 3,083 in 1995.

Much of the volume in 1995 was driven by top corporate and sovereign borrowers refinancing more expensive debt – pricing continued to fall throughout the year to the extent that facilities put in place in late 1994 and early 1995 looked expensive compared to what could be achieved by the end of the year.

The level of activity in the first five months of 1996 has clearly caught the market by surprise. Most bankers had expected the volume of new business to subside after the year-end rush. Instead, volume has been fully sustained at 1995 levels and first-half totals for 1996 are certain to be up on those for the same period last year.

Refinancing is no longer driving loan demand – most has already been done and bankers are looking to new areas such as acquisition and project financing to sustain their business. Few doubt that the volume of loans completed by the end of this year will fall well short of the record-setting $470bn achieved in 1995. In part, the anticipated decline in volumes explains why bankers are starting to look at overall returns from client relationships.

Last year, volume made up for the lower fees earnt on each deal and the year was highly profitable for everyone in the lending market. The second half of 1996 is clearly not going to see the same level of income achieved unless more profitable business is undertaken.

With this in mind, many syndication heads are trying to position their institutions to win new types of business.

Acquisition and project financing are two areas that are clearly being targeted. With the developed OECD economies experiencing low growth rates, few corporates are looking to borrow new money to fund internal expansion. Instead, many have hit the acquisition trail to grow their businesses and increase shareholder value. M&A financing is rapidly becoming one of the most important sources of new mandates for the market's more experienced syndication teams, with such banks as BZW and NatWest Markets benefiting from more integrated approaches to their investment banking businesses. Much of the volume seen so far this year has been to support significant corporate acquisitions, with financings supporting the rationalisation of the UK power sector being the single most important source of new business.

The problem for banks relying on this type of business to see them through the year is that it is a very unpredictable source of mandates and, as one syndication head notes, it is not in the hands of the bankers. However, bankers are benefiting in several ways from increased acquisition activity in Europe. For not only is the syndicated loan market being called upon as the primary source of funding for many acquisitions, but most purchases also give rise to a host of structured financings as acquired businesses are rationalised and unwanted activities sold off to managements and investor groups.

Volume of international loans by region 1995

Region	Amount ($bn)	Number
Supranationals	0.3	3
North America	37.3	128
Western Europe	264.2	1,114
Eastern Europe	8.8	141
Middle East	20.8	115
Africa	6.3	66
Indian subcontinent	5.9	95
Asia	74.2	1,116
Australasia	12.7	54
Latin America	22.7	224
Caribbean	7.2	27
TOTAL	470.5	3,083

Source: Euromoney Loanware

Volume of international loans

Month	Amount ($bn)	Number
January 1995	50.0	168
February	23.9	185
March	37.5	279
April	34.8	185
May	30.3	211
June	50.4	311
July	38.7	282
August	34.2	260
September	40.7	317
October	30.4	225
November	38.2	270
December	52.3	285
Month unknown	8.3	105
TOTAL 1995	470.5	3,083
January 1996	28.9	134
February	35.2	186
March	45.6	220
April	40.1	163
Jan-Apr 1996	149.7	703

Source: Euromoney Loanware

Power, along with telecommunications, is also seen as an active sector for project financiers. Over the next few months a large number of major private sector power projects in both Europe and Asia will be seeking long-term financing – as will telecom projects in both regions.

With the level of pricing in the syndicated loan market so competitive compared with other financing alternatives, the instrument is attracting new converts from both advanced and emerging market economies.

Many borrowers, particularly in Germany and Scandinavia, have a greater understanding of what can be achieved through syndications – especially at a time when there is plenty of capacity for new loans. Over recent months, the syndicated loan market has embraced a number of leading international corporates, such as Siemens, for major liquidity backstop facilities on the very finest of terms.

Such companies see the instrument as an effective way of locking in very cheap international liquidity. The coming months will see more of this type of business. For example, a number of leading German corporates are lining up to tap the market for the first time with DM5bn of facilities already mandated but not yet launched.

The syndicated loan market is also playing a major role in introducing emerging market borrowers to the international capital markets. Competition for such business is very intense. Although spreads are under severe downward pressure, the margins paid to lenders are still high compared to other lending opportunities. Such debut financings are seen by many bankers as an important method through which to establish relationships that can be developed over time with these clients.

Borrowers based in Eastern Europe, South Africa, the Middle East and Latin America have never had such excellent access to cheap international finance as is available through the syndicated loan instrument. Competition is constantly forcing down pricing for this type of borrower and recent facilities arranged for Middle Eastern borrowers such as the State of Qatar, Gulf International Bank and the Sultanate of Oman have all seen seven-year tenors achieved on very competitive terms.

While bankers are hopeful that a few tough syndications will lead to higher margins, this is unlikely to occur across the board. Pricing for top rated borrowers may be unlikely to decline further, but for lower-tier credits it still has some way to fall in a market that still has plenty of capacity, with more players as both arrangers and providers than ever before. Indeed, pricing in the syndicated loan market has

Continued on next page

■ **Asset securitisation:** by Antonia Sharpe

Opportunities to make money in Europe

The area is evolving as a viable alternative to bank loans as companies seek finance

Asset securitisation, once one of the least promising areas of investment banking in Europe, has finally come into its own following a series of landmark transactions over the last year.

But asset securitisation has made it into the mainstream of investment banking in Europe in a completely different guise from that it has taken in the US, where this form of financing was spawned. In the US, there is a trillion-dollar market in securities which are either backed by mortgages or by other assets such as credit-card receivables.

Although there has been some progress in getting banks in Europe to use securitisation as a way to free up capital by issuing bonds backed by mortgages or other loans, the lack of large, homogeneous pools of assets has limited the development of an asset-backed securities market in Europe.

"Each market in Europe is quixotic," says Mr Karl Essig, managing director and head of international securitisation at Morgan Stanley. He adds that while there may be a fair degree of issuance in one year, it may drop off the following year. "In Europe there is no equivalent of GMAC or Citicorp," he says, alluding to two of the main providers of asset-backed securities to the US market.

The lack of the economies of scale in Europe has prompted some of the US banks which are big players in their domestic asset-backod market to throw in the towel in Europe. But for those banks which are committed to promoting securitisation as a global product, the opportunities to make money in Europe are coming through, though in ways which were not obvious when securitisation was first exported from the US.

> Securitised bonds are welcomed for their higher yields at a time when interest rates are low

For rather than being adopted as a way to recycle capital by securitising mortgages or credit-card receivables, in Europe securitisation is evolving into a viable and often cheaper alternative to bank loans when companies want to finance an acquisition or to restructure their balance sheets.

Mr Essig says securitisation has become accepted in this form because the capital markets in Europe are not deep enough for companies, especially those with inferior ratings, to raise the necessary funding.

"The only way for such companies to access capital is to find a set of cash-flows and turn them into rated debt instruments which investors will buy," says Mr Essig.

This is essentially what GPA, the Irish-based aircraft leasing company, did in order to avoid coming to a stand-still situation with its bankers. By issuing $4bn worth of bonds backed by aircraft leases, not only was it was able to repay $2.9bn worth of bank and other secured debt but it also significantly reduced its funding costs.

Mr Essing says that while the banks lent GPA 75 per cent of the value of its leases at 2 per cent over the London interbank offered rate (Libor), when the leases were securitised, GPA was able to borrow 87 per cent of the value of the leases at Libor plus 1.4 per cent. "The GPA deal shows that you can use securitisation to solve complex restructuring problems," he says.

Some bankers argue that the GPA deal was more of a US deal, because the vast quantity of the bonds were placed with US investors. But the rationale behind the GPA deal is evident in other European deals, such as the recent plan by four Spanish electrical utilities to issue asset-backed securities to clear Pta715bn ($5.65bn) of debt accumulated in connection with the mothballing of nuclear power plants 12 years ago.

In the UK, some headline-grabbing transactions have established securitisation as a viable financing tool to fund off-balance sheet acquisitions. One such deal was the £1bn mortgage-backed bond offering from Birmingham Midshires Building Society which helped to fund its purchase of a £1.8bn residential mortgages portfolio from Germany's HypoBank.

Mr Bruce Bantz, global head of asset securitisation at NatWest Markets, which arranged the transaction, explains that rather than putting the whole portfolio on its balance sheet, Birmingham Midshires placed £1bn of the mortgages bought from HypoBank into a special purpose vehicle which then issued bonds to investors.

The interest on the bonds will be met by the mortgage payments but Birmingham Midshires will make money from servicing the portfolio.

Mr Bantz says that this use of securitisation is an efficient way for UK financial institutions to increase their market share at a time when the UK mortgage market is stagnating. He expects similar deals to emerge in the coming months as the sector continues to rationalise. "The market here is finally saying, Yup, securitisation is a legitimate way of raising money," says Mr Bantz.

Investors are also welcoming the increased flow of securitised bonds because they carry a higher yield than conventional bonds, at a time when interest rates are low.

But perhaps the most innovative use of securitisation in Europe has been pioneered by Nomura, the Japanese securities house. Nomura stunned London's financial community last November by using it to fund a £672.5m acquisition of a passenger rail rolling stock leasing company from the UK government.

Mr Guy Hands, managing director and head of Nomura's principal finance group, says that by using securitisation to fund the acquisition, Nomura was not only able to outbid its competitors but it also reduced the company's funding costs by about £100m over the next seven to eight years. In addition, Nomura earned significant fees for putting the deal together.

Mr Hands says that for Nomura "securitisation is an exit vehicle for its principal finance business". Principal finance essentially involves Nomura using its own capital to underwrite an acquisition – in this case the leasing company – and then makes money by selling bonds backed by these assets on to investors.

Such are the gains to be made that principal finance has become Nomura's most profitable activity and contributed greatly to the profit turnaround in its European operations.

Indeed, securitisation is expected to play a large part in the financing of bids when the UK government sells off 58,000 Ministry of Defence homes, a deal which is expected to raise more than £1.5bn.

Groups led by Morgan Stanley and Lehman Brothers, Nomura, and ING Barings, the Dutch-owned investment bank, have been selected from 19 initial offers to go forward to the next stage of the bidding process.

Borrowers

Continued from previous page

only ever risen across the spectrum if an external event occurs

With volumes expected to fall in the last six months of the year, a number of the market's leading houses are starting to review the business in the search for new activities. The secondary loans market is clearly attracting plenty of management time. In an environment where lenders are scrutinising returns more actively than ever and unprofitable relationships are being terminated, the rationale for a more developed secondary market is persuasive.

One senior banker observes that "as a stand-alone business, syndication is a loss leader". With banks starting to focus on their portfolios, he adds that customers need to be educated that banks must be able to manage their business as well. Even if this is only partially achieved, then the secondary market in international loans could be about to take off.

■ **Samurai bonds:** by Emiko Terazono in Tokyo

Why rise in demand may not last

Deregulation of the Euroyen market could still wipe out its more expensive alternative

The search for yields among Japanese investors, whose domestic returns have plunged due to record low interest rates, has boosted the increase in high-yielding samurai bonds, the yen-denominated paper issued in Japan by foreign borrowers.

But in spite of the sharp rise in demand for samurai bonds, the Euromarket remains the leading source of yen capital for overseas borrowers as fundraising on the samurai market means higher costs and the insufficient reflection of high credit ratings on bond yields.

With many borrowers still turning to Euroyen bonds due to the additional fees arising from the mandatory appointment of trustee banks and other disincentives in the samurai market, analysts warn that the current deregulation of the Euroyen markets could eventually wipe out the samurai bond market.

Samurai bond issues for the business year to last March surged 67 per cent on the year to a record Y2,108bn, with purchases by retail investors accounting for 52 per cent. Recent demand has centred on dual currency samurai bonds where investors buy the bonds in yen and receive interest or repayment of the principal in foreign currencies.

But the figure remains around a fifth of yen bonds issued on the Euro-market, which totalled more than Y10,000bn last year. Although borrowers, including the Greek government, McDonald's and the European Investment Bank, have lined up to issue samurai bonds, easing of distribution rules of Euroyen bonds spurred a rise in issues.

From the start of this year, the Japanese ministry of finance shortened a "lock-up period" during which Euroyen bonds are banned from being resold in Japan from 90 days to 40 days. By 1998, the lock-up period, initially put in place to protect the country's domestic bond markets, will be completely eliminated.

Amid the ongoing deregulation of the Euroyen market, a report issued last January by the research arm of Fuji Bank, a leading commercial bank, outlines the problems hampering samurai bonds from becoming an efficient fund-raising source. It warns that the samurai bond market could face an eventual "hollowing out" with issuers abandoning it for other methods of capital-raising unless changes were implemented.

The leading problem is the higher level of issuance fees and other charges compared to the Euromarket, Fuji points out. Since the bulk of samurai issues is taken up by individual investors, the samurai underwriting business has been difficult for the foreign brokerages to crack. Japanese brokers have thus managed to keep underwriting fees relatively high, due to the lack of competition from foreign investment houses.

> Costs in issuing samurai bonds are pushed up by trustee banks, which act as guarantors of the bonds

In fiscal 1995, the Big Four securities houses – Nomura Securities, Daiwa Securities, Nikko Securities and Yamaichi Securities – lead managed 91 per cent of all samurai bond issues, down four percentage points from the year before. Although brokers affiliated to the leading commercial banks posed some competition, the Big Four has managed to maintain its ground.

Costs in issuing samurai bonds are also pushed up by the existence of trustee banks, which act as guarantors of the bonds. In total, samurai bond issuers pay 0.79 per cent of the issuance amount in fees, almost triple that of 0.28 per cent for Euroyen bond issues.

Meanwhile, borrowers with high credit ratings have been discouraged by the fact that their creditworthiness fails to reflect on their yields. Since the bulk of demand for samurai bonds has come from retail investors who tend to search for higher coupons regardless of the borrowers' credit rating, issuers with low ratings have managed to attract more investors, hence lowering the overall yield.

The trustee bank system has contributed to the price deviation since the bank provides a full back-up if the borrower goes under, nullifying the significance of a credit rating.

This has led to the decoupling of credit ratings and borrowing costs, giving companies with high ratings all the more reason to turn to the Euro-yen market. The samurai market instead has attracted borrowers with low ratings, such as the governments of Brazil, Mexico and Turkey, triggering some underwriters to name it Japan's "junk bond" market.

> Every time bonds are issued, official documents must be submitted to the ministry of finance

Indeed, according to Fuji, 60 per cent of the samurai issuers in 1991 were those with a triple A or double A rating, while in 1994, issuers with a single A rating or a triple B rating accounted for 60 per cent of the total.

The lack of high grade issues has depressed buying of samurai bonds by Japanese institutions, which are usually restricted to investing in paper with high credit ratings. Institutional investors are also turned off by the prices which deviate from market conditions and ratings. In 1995, buying by insurers only accounted for 3.3 per cent of the total, while investment trusts bought 0.2 per cent.

Another problem is the cumbersome paperwork involved in the issuance. Unlike Eurobond issues where borrowers can freely issue bonds under the medium-term note method without re-registering with authorities, samurai bond issuers need to submit official documents to the ministry of finance every time paper is issued.

An increase in competition among underwriters to cut issuance fees, the removal of the trustee system and emergence of a pricing mechanism which reflects credit ratings are crucial for the survival of the samurai market. These anomalies also apply to Japan's straight bond market.

Japan's bond markets will lose the chance of bearing international significance unless these barriers are addressed. Market participants and financial authorities must try to enhance their attractiveness for borrowers.

■ **Credit rating agencies:** by Lisa Bransten in New York

'Pay us – or pay the price'

Why the US Justice Department is looking at the practice of unsolicited ratings

Unsolicited ratings have been a cause for complaint among bond issuers in the US and around the world for a number of years, but until recently little has been done about it.

Earlier this year, however, the US Justice Department initiated an investigation into the ratings practices of Moody's Investor Services – the US credit rating agency that along with Standard & Poor's dominates the field of rating the creditworthiness of bond issuers.

The Justice Department probe is focused narrowly on Moody's practices in the US asset-backed and mortgage-backed markets and in the market for municipal bonds, but some hope that the probe will have a chilling effect on the practice internationally.

Most credit ratings are requested by bond issuers that pay the rating agency for the service, but in some cases the agencies will issue ratings unsolicited – and thus at no charge – as a service to investors. Such ratings are extremely important because they play a large part in determining how much interest companies and countries have to pay on their debt.

S&P says it does not issue unsolicited ratings as does IBCA, the European ratings agency.

However, it is not the practice of unsolicited ratings, but rather the way they may have been used to maintain market share, that is at the centre of

> Ratings help determine how much interest companies and countries pay on their debt

the Justice Department's anti-trust investigation. Issuers have complained that they are forced to pay for unwanted ratings out of fear that if they do not they will receive lower ratings and wind up paying more for financing.

"They're saying either you're going to pay us or you're going to pay in the market," says Mr Mark Gross, a senior vice-president in the New York subsidiary of IBCA, of the accusation against Moody's.

An executive who runs a ratings advisory service for a one Wall Street investment bank says that he always tells his clients to co-operate with a rating agency rather than accept an unsolicited rating. "If you actually go through the process of spending a day with Moody's, chances are you will get a better rating," he says.

Moody's says it does on occasion issue unsolicited ratings, but at the same time it denies that they are part of an attempt to force an issuer into a paid rating.

The agency does not say whether any particular rating is paid or not, but several observers believe that the agency's ratings of several Gulf State countries were unsolicited.

Mr David Beers, managing director of the sovereign ratings unit at S&P, says that the Moody's ratings of Qatar and Oman were released just days before S&P came out with paid ratings on those countries.

But Moody's did not give both countries ratings lower than S&P's. Both agencies gave Oman's senior foreign debt investment grade – although Moody's ranked the country a notch above S&P – and they split over the rating of Qatar. S&P put Qatar one step into investment grade, while Moody's put it one step below investment grade.

Yet despite all the controversy and the differences among the rating agencies, recent analysis has shown sovereign ratings to be remarkably uniform across nations.

In a study released in April, Mr Richard Cantor and Mr Frank Packer* of the Federal Reserve Bank of New York found that Moody's and S&P

> The grades have had a large impact on the spreads of emerging market debt

agree on sovereign ratings about half of the time, and in the majority of cases "the disagreements are small in magnitude."

As of late May, the agencies were split between investment grade and non-investment grade ratings on only three of the 56 countries that both rate: Qatar, Indonesia and South Africa.

Qatar was the only one of these three cases to receive a higher ranking from S&P. Moody's rated Indonesia and South Africa one notch into investment grade territory, while S&P ranked them both a notch below investment grade.

About 17 other ratings differ by a few notches but are in the same general range. A statistical analysis in the Cantor-Packer paper of the economic data that the agencies use to assign their ratings reveals that Moody's is more inclined to hold high external debt against a country and less likely to count default history against a country. S&P is more likely to assign a higher rating to a country with a high per capita gross national product.

The importance of ratings is made clear by another part of the study, which indicates that the investment grade sovereign debt tends to trade with yields very close to those of similarly rated corporate debt. Sub-investment grade sovereign debt from emerging market nations, however, trades at substantially wider spreads to US Treasury bonds than similarly rated junk bonds.

Also, the study found that announcements of rating upgrades and downgrades had a much larger impact on the spreads of emerging market debt than on investment grade sovereign debt.

In addition, sovereign ratings are important to corporate issuers because the agencies seldom assign corporate debt a rating higher than that of the country where it is domiciled.

Thus, whatever the outcome of the Justice Department investigations, the competition to secure a high rating and therefore the impetus for countries and corporations to co-operate with the rating agencies is likely to continue.

*"*Determinants and Impacts of Sovereign Credit Ratings", Federal Reserve Bank of New York Research Paper #9608.*

■ **Settlement and clearing:** by Margaret Morris

A tale of gallant bond rivals

The business of Euroclear and Cedel has spread from eurobonds to other instruments

Think Euroclear or Cedel, and eurobonds come to mind. It's true that these clearing houses were set up to settle eurobond trades and later handled all manner of international securities that otherwise did not have a home market.

But the business of Euroclear and Cedel Bank has changed. A greater portion of their turnover now comes from settling trades in domestic bonds and reflects the growing sophistication of international investors. Today, Cedel handles 75,000 different securities and financial instruments; Euroclear a similar number.

International investors buying, say, German bunds, have a choice. They can settle the trade through a local institution in Germany, or through Euroclear or Cedel. Last year, Euroclear handled $16,500bn in domestic securities (defined as securities that have another native market), up from $1,400bn in 1990.

What Euroclear and Cedel offer is an efficient settlement process – at Cedel over 95 per cent of trades settle without a hitch – and an ease of access to a pooled, multi-currency securities portfolio. In the international clearing houses, that bund is easily available to be used as collateral on another deal in another currency. To use the bund as collateral in the UK, if it is held in a German bank is a far more cumbersome process.

The ability to pool securities and cross-collateralise an entire bond portfolio is found only at Euroclear and Cedel today, and is a major reason for the growth in business at these institutions. "The reason to use an International Central Securities Depository," says Martine Dinne, a managing director at Euroclear in Brussels, "is to optimise your securities holdings. Investors don't want to sit on long positions; they want to repo or lend out their securities."

Both Cedel and Euroclear offer highly automated repo and securities landing as part of their core service and can support any type of collateralised financing. These services are a boon to the investor, but expensive for the borrower. As Ms Dinne points out: "Many customers find that they are ahead, because after paying for the custody and settlement services, we then pay them their lending fees. In many cases, the net result is a profit for the customer."

Competition between Euroclear and Cedel is intense. Euroclear is older and bigger. Started in 1968, it had a turnover of $25 trillion last year. Cedel is 25 years old and turnover in 1995 was close to $10 trillion. Staff at Cedel and Euroclear are gallant about their rivals. "We keep each other sharp," says Geoffrey Wakem, a director of Cedel in Luxembourg. "They keep us on our toes," concurs Ms Dinne.

Clients tend to have

> In recent years Cedel's growth in turnover has matched Euroclear's on a percentage, if not an absolute, basis

accounts at both Euroclear and Cedel, and there is a high-speed computer link between the two, opened in 1993, that allows transfers to occur quickly. But that said, most clients will use one or the other for most business, because there are pricing and economic advantages in consolidating the account. With few exceptions, the two institutions are equipped to handle identical securities.

Euroclear has had a clear advantage in certain parts of the business. For instance, it was first to introduce tri-party repo, a mechanism whereby a third party holds the collateral presented in the repo for the term of the deal. Through the four months ended in April, Euroclear had a turnover of $15bn in tri-party repo, claiming a market share of up to 70 per cent. However, Cedel and Bank of New York, the other two main players in the market, might dispute that.

But the real issue has always been Cedel's ability to attract a critical mass of investors, banks and broker/dealers to provide the give-and-take that makes the borrowing and lending services work. Within the last few years, Cedel seems to have put this worry to rest, as its growth in turnover has matched Euroclear's on a percentage, if not an absolute, basis.

Cedel has attacked the issue on two fronts. In 1994, Cedel was reorganised and received a banking licence in Luxembourg. This step was necessary in view of the changes to Bank of International Settlements capital rules and to give its clients the security of giving assets to a regulated and rated bank.

Under BIS rules, participants in a non-bank Cedel, which is owned by a group of banks, would have had to account for five times more capital on their balance sheets than they do today. This competitive disadvantage was reason enough for Cedel to seek a banking licence.

Cedel has also cast its net wider in terms of new product development. Euroclear, by its own account, is sticking to clearing, settlement, collateral management and securities lending and borrowing, with the aim of improving these services year after year. Cedel is introducing an expanded collateral management programme, order routing for securities through its Liberty subsidiary and is pushing to bring equities in more markets into its system.

These efforts are all in the early stages, so it is hard to tell whether they will have the desired effect on Cedel's turnover. The collateral management system, designed to facilitate collateralised over-the-counter derivatives transactions, is being tested at the moment. "We put together a pilot group of eight end-users to find out what they wanted from a collateral system. That's the system we built," says Cedel's Mr Wakem.

Roll-out is scheduled for later this year, but may meet some competition. Bankers Trust and Citibank have such systems available already and exchanges in the US such as the Chicago Mercantile Exchange and the Chicago Board of Trade are launching collateral management systems later in the year.

The next big change on the horizon for both Euroclear and Cedel is the advent of real-time settlement. A misunderstood buzzword to many, RTS should be starting in both services later this year and will be fully operational in 1998. But what it really means is that the time a trade stays with Euroclear or Cedel will be dramatically shortened, not that trades can be settled instantaneously. Euroclear and Cedel clear trades through local exchanges.

If that exchange is on T+3 [trade date plus three days], the trade can't settle any faster than that. "RTS within our system will allow us full flexibility to settle transactions with domestic markets in different time zones, rather than through the twice-daily batch processing we now use. Information will get to our clients faster," says Ms Dinne.

■ **Processing systems:** by Richard Lapper

Swift spreads its net

With 137 countries connected, there is still the prospect of further potential growth

Swift, the financial communications and processing system, last year extended its operations to some of the more exotic of the world's emerging markets.

Banks and other financial institutions in Vietnam, Tanzania, Jamaica, Uganda and even Albania are now among the 137 countries connected to the system, which centres on a series of mainframe computers, based in operating centres near Leiden in the Netherlands and near Washington DC in the US.

But although this geographical extension is significant, Swift has identified more potential growth in the world's securities markets, where the system's managers are targeting fund managers, securities traders, depositaries and other players in the growing cross-border equity and bond markets. "For the last few years we have been focusing on non-bank institutions. We see our growth in the securities market," says Mr Euan Sellar, spokesman for the Brussels-based Swift.

"This is where the volume will come from."

Swift, an acronym for the Society for Worldwide Interbank Financial Telecommunications, is a bank-owned co-operative supplying secure messaging services and interface software to more than 5,200 financial institutions, set up in 1977.

Messages, which conform to industry-agreed standards,

> Swift can help dealers and buyers to reduce costs, since many are linked by incompatible systems

typically cover areas such as confirmations and settlement instructions of trades generally conducted by telephone.

The system can help dealers and buyers reduce costs, since at present many are linked by systems which are incompatible, forcing them to re-key information manually. Not surprisingly therefore, securities business is growing fast.

Interbank payments are still the main activity, accounting for some 71 per cent of activity on the network. But securities transactions have risen from 3 per cent of total volume in 1992 to 8 per cent of the total by the end of last year and to 10 per cent by the end of last month. And in Asian markets securities transactions already account for more than 23 per cent of total message volume.

A reduction in charges, following a change in charging policy earlier this year, should help Swift build up its customer base in the new markets. Charges for messages carried over the system now range from BFr4 per message between destinations which are part of the same institution, compared with a range of between BFr6 and BFr13.5 previously. In addition, the fee paid by users when they join the system was reduced by 70 per cent to BFr200,000. Shareholders pay BFr400,000.

"Capital markets players were finding Swift expensive to justify. The joining fee was too high and this was an obstacle," says Mr Sellar. Volume and revenue growth overall and a tight rein on costs made the price cut possible. Against a rise in revenue from $396m in 1993 to $418m in 1995, Swift was able to offer its members rebates of $52m in 1993, $30m in 1994 and $69m in 1995.

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■ **Project finance:** by Brian Bollen

Too many banks chase too few jobs

A suddenly fashionable trend could in the long run present new risks

Project finance is growing and changing before our eyes. On the supply side, change is being driven partly by the greater number of projects becoming suitable for the project finance approach. As privatisation rolls out geographically and governments respond to fiscal pressures by putting infrastructure construction and improvement projects out to private sector bidding, the requirement for private sector finance has increased. The demand side is being driven by the hunt for higher yielding assets.

This suddenly fashionable trend could in the longer run itself present new risks. Infrastructure finance could become the real estate of the 1990s, warns one banker. There are too many banks with too much capital chasing too few projects. Pricing is being driven down and covenants are being weakened.

Recent growth in the market is illustrated by figures compiled by IFR Project Finance International magazine to measure the volume and value of advisory mandates, new lending and bond issues in the sector. According to these figures, the total project finance market grew to $27.1bn in 1995, up 53 per cent on the previous year. By far the bulk of the figure was for new loans booked; these rose by almost 71 per cent in 1995 to $23.3bn. The balance was made up by bonds, the total for which fell back slightly to $3.8bn, as a direct result of the Mexican crisis in December 1994.

According to IFR PFI, the main driving force in the increase in loans was a jump in Asia from $4.2bn in 1994 to $9.3bn in 1995, and, perhaps most surprisingly, an increase in the Americas from $2.9bn to $7.6bn. Europe remained static at around $6.4bn.

The number of advisory mandates awarded around the world in 1995 grew to 973 from 789 the previous year. The growth was most pronounced in Asia where the number of prospective schemes continues to grow. Numbers grew in Europe too, perhaps mostly from the growing number of UK Private Finance Initiative projects being proposed. A certain amount of scepticism remains, though, as to how many of these proposals will make it off the drawing board.

Telecoms, power, water, transportation and other infrastructure projects are the main generators of activity. Worldwide, more loans were arranged for power projects ($8.7bn) than for any other sector.

Deutsche Morgan Grenfell came top of IFR PFIU's league table for new global advisory mandates in 1995, with Fieldstone, Bank of America, Schro-

> There is a need to tap new sources of finance

ders and Morgan Stanley filling the next four places. On the lending side, Bank of America topped the table for global lead arrangers, underwriting almost $2.6bn of loans for projects worth over $7bn. ABM Amro, Chase, Citibank and BZW made up the rest of the top five.

In the best of all possible worlds, major projects would be financed by domestic capital markets. The scale of the sums and the immaturity of markets in many of the countries involved preclude this. The bulk of project finance has traditionally taken the form of long-term high margin commercial bank lending, with a significant portion of equity. The projected huge gap between the supply of and demand for capital dictates that new sources of finance other than commercial banks, export credit departments, multilateral agencies and sponsors must be tapped.

There is growing optimism that as markets become more sophisticated, international bond investors, who are seeking ways to boost their returns now that good sovereign and corporate yields have dropped to very low levels, might be tempted into the world of project finance. "We could see a growing partnership, as in the US, between commercial banks and capital markets," says Mr Jeremy Thirsk, head of project finance at UBS in London.

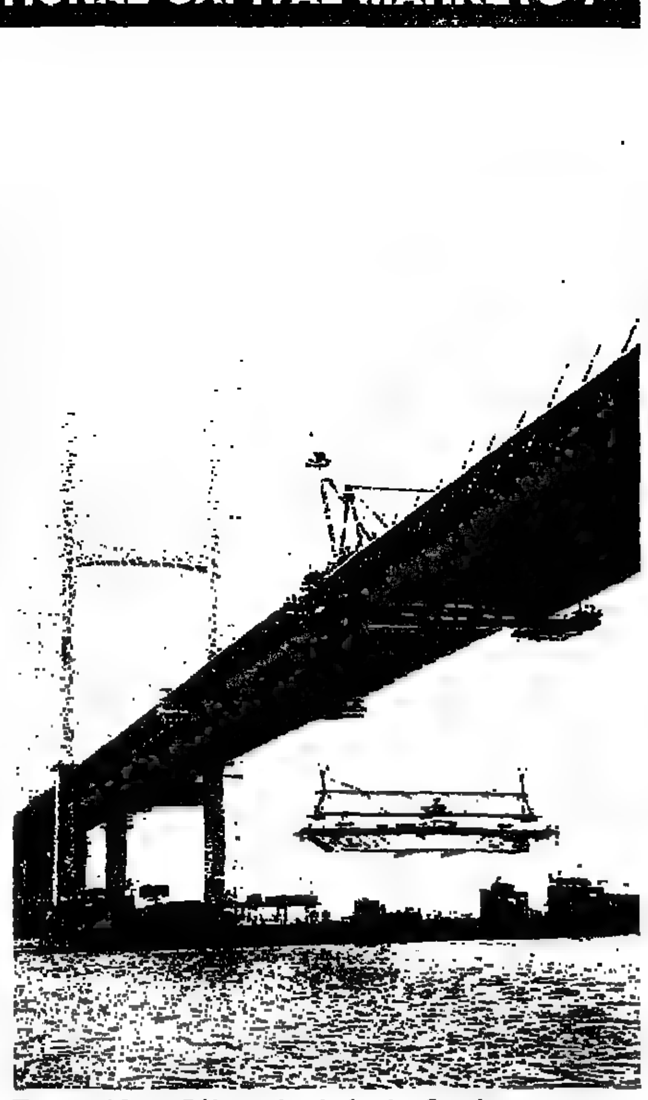
Capital markets are more expensive, and in many ways less flexible than bank loans, but they do offer greater capacity and liquidity. J.P. Morgan argues that Indonesia's Jawa Power Project, on which it was financial adviser, is the blueprint of a successful project financing. Not only was the financing in place within a very short period of time at maturities significantly longer than that of Indonesian sovereign debt, but it also allowed the sponsors to tap new sources of financing through a private placement of senior notes with US institutional investors.

"While some might argue that there have been such financing structures in previous projects, what makes Jawa Power a first in this respect is that no completion guarantees by the sponsors have been offered," says Mr Tim Leissner, a vice-president at J.P. Morgan in London. "The institutional investors assume construction as well as operating risks."

From the sponsors' perspective, the inclusion of a private placement has both economic and strategic benefits. The private placement provides a 10-year grace period before the notes amortise over the remaining five years. In addition, like all project sponsors Siemens and PowerGen were keen on developing new relationships with providers of long-term debt financing. The success of Jawa Power in combining traditional sources of financing from commercial banks and export credit agencies with a capital markets issue has opened new financing options for future projects, claims Mr Leissner.

BZW points to its experience with a sterling eurobond issue for First Hydro, the pumped storage business acquired by Edison Mission of the US from the National Grid just before Christmas, as an indication of how many privately owned power plants in Europe are capable of being refinanced at least in part with long dated bonds. The acquisition finance (a £200m bridge loan and a £200m term bank loan) was rapidly refinanced by a £400m bond. Similar non-recourse issues featured in the Kilroot Power refinancing in Northern Ireland and the second Severn Crossing financing.

Domestic institutional investors are the natural target for such project bonds but their strong credit and significant margin over comparative government bonds can attract international buyers. For a good project that has been built, it should be fairly easy to refinance in the capital markets, says Mr Jeremy Wilson, head of project advisory at J.P. Morgan in London. "The crunch could come in two to three years' time, when a number of current projects are completed and debt repayments are scheduled to start," concludes Mr Stephen Crew, head of international project finance at ANZ Bank in London.


The second Severn Bridge: a triumph of project financing

■ **Derivatives:** by Samer Iskandar

A blip in the growth trend

Trading volume has resumed its upward trend since the Barings collapse

The highly publicised derivatives-related losses of 1994 and 1995 undoubtedly had an influence on the way these instruments are used, but do not seem to have hindered the market's long-term growth trend. Although the number of futures contracts traded on organised exchanges fell in 1995 to 774m lots, from 807m in 1994, trading volume resumed its upward trend earlier this year. According to the Bank for International Settlements, 233m futures contracts were traded in the first three months of 1996, up 29.4 per cent from the previous quarter.

Over-the-counter markets were even more resilient. At the end of last year, the outstanding amount of OTC derivatives stood at $43,200bn, up 17 per cent from the $36,900bn at year-end 1994, according to initial estimates by Swaps Monitor, a US risk management newsletter.

Trading revenues of derivatives dealers are another indi-

> Lack of liquidity can make some markets inaccessible

cator of activity. In the first quarter of 1995 – the period that saw the Barings collapse – the derivatives trading revenues of US dealers fell to a low of $1.15bn, from $1.8bn and $1.9bn in the first three months of years 1994 and 1993 respectively. Swaps Monitor estimates that these revenues have climbed back to $1.85bn in the first quarter of this year.

Although swaps and foreign exchange forward contracts remain the largest components of the OTC market, with market shares of 45 and 25 per cent respectively, commodity and equity-linked products have grown steadily, to around $900bn at the end of last year, from $330bn in 1992.

The growing use of equity-linked products is only one of several new trends in the financial derivatives market, according to Mr Robert Baldoni, managing director of Emcor, a US risk management consultancy. A significant part of derivatives' growth is taking place "outside the traditional areas of currencies and interest rates," he says. While the outstanding amount of currency forwards declined in 1995 from 1994 levels, equity and commodity products grew by 50 per cent. Other potential growth areas include credit derivatives – which offer a hedge against a deterioration in a counterpart's financial health – insurance products and instruments linked to the emerging markets.

"Deleveraging" is another dominant trend. Leverage – the factor by which performance is multiplied when using derivatives rather than investing in the underlying asset – has declined substantially in the past 12 months. And some investors, notably corporations, reportedly ceased to use derivatives for yield enhancement purposes. The characteristics of recent issues of structured medium-term notes – bonds with leveraged coupons whose prices amplify market moves – has changed significantly from previous transactions. While some structured notes still offer highly leveraged returns, a growing number of issuers recently started guaranteeing the value of the principal amount.

Market participants are increasingly focusing on other characteristics of derivatives. Customisation, or tailoring a product to fit an investor's particular needs, is one of them. Not so long ago, "leverage used to be the main motivating factor for using derivatives," says a salesman of OTC options. "What attracts investors now is the flexibility and the possibility to personalise a trade."

Non-leveraged uses of derivatives have attracted some of the most conservative investors, such as managers of UK unit trusts. Although guaranteed products represent only a niche market, they offer attractive properties. By applying derivatives-based hedging techniques, the managers of these funds are able to guarantee the initial investment and periodically lock-in past performance. Mr Richard Bolchover, director at Close Fund Management, says that a large number of investors are willing to give up part of the upside potential in exchange for protection against losses.

Large funds also view derivatives as an alternative investment instrument in markets where liquidity is limited. In cases where the amounts involved are very large, the lack of liquidity can make some markets inaccessible in the absence of derivatives. And some professionals argue that investing inthese markets through derivatives often stimulates activity in the underlying shares and generates liquidity in the longer term.

As users of derivatives reduce leverage – and therefore market risk – they are simultaneously seeking more efficient ways of measuring this risk. J.P. Morgan – among other institutions – is a strong proponent of Value at Risk (VAR), a statistical tool also recommended by the US Securities and Exchange Commission, as a global benchmark for risk measurement. VAR, which is based on past prices, measures the maximum loss a portfolio is likely to incur over a period of time, with a certain degree of confidence. While most corporate treasurers and investors are able to understand a VAR analysis with little technical background, undertaking the calculations is not a simple task and requires costly hardware, which is likely to deter most small companies and "even some of the large ones," says Mr Baldoni at Emcor. However, he believes a majority of users will require only monthly – or even quarterly – VAR analyses, allowing them to "outsource the analytical tasks" to risk management professionals.

While Barings-style "catastrophes" have almost certainly enticed professionals to revise investment guidelines and internal controls, there seem to be no indications that such "incidents" have affected the long term growth prospects of the derivatives markets.

■ **Emerging markets:** by Richard Lapper

That incredible obsession

Mexico's devaluation seems a thing of the past as capital begins to flow back

"It is almost incredible that people are so preoccupied with the emerging markets," comments one New York banker, contrasting the current – almost obsessive – investor interest in the markets with the fear which predominated only just over a year ago.

Mexico's shock devaluation in December 1994 triggered a wave of capital flight into the safe havens of the US and European bond and equity markets. But over the past 12 months, as those markets have powered ahead, the relative attractions of the emerging markets have grown and capital is now beginning to move back to them.

Figures for Investment Company Institute show that US mutual funds, which account for some 17 per cent of capital flows into emerging markets, pumped in more than $4.5bn in January and some $3bn in February into international markets. In the first three months of 1996, total investments by US mutual funds totalled $9.3bn, compared with $11.9bn for the whole of 1995.

Part of the surge early in the year was due to the so-called "January effect", caused when dealers sell loss-making securities for tax reasons in December and subsequently buy them back early in the following year, and the rate of investment slowed somewhat in March.

Nevertheless, specialist traders and hedge funds, as well as the proprietary desks of investment banks and institutional investors, appear to be pinning their hopes on continued growth.

Emerging market equities have risen sharply. Overall, the composite International Finance Corporation index rose by 10.6 per cent between the end of December and May 22. Hungary led the charge with an increase of 67.2 per cent (following a 26.8 per cent fall in 1995); Polish equity prices rose by 60.2 per cent (following falls of 42.6 per cent and 9.2 per cent in 1994 and 1995); while both Turkish and Zimbabwe prices rose by more than 25 per cent.

In Latin America prices have risen by 12.9 per cent on average with Venezuela up 50.4 per cent, Mexico rising by 21.4 per cent and Brazil up 14.7 per cent.

In Asia prices have risen by an average of 15.8 per cent. Here India has led the way with a 28.1 per cent rise, followed by Taiwan with a 21.9 per cent increase and Malaysia 19 per cent.

Bond prices, too, have surged ahead. The West Merchant Bank secondary debt market index – which aggregates the performance of 18 emerging bond markets – increased by 9.5 per cent between the end of December and May 17. The stripped yield spread – which measures the yield on Brady bonds once the zero-coupon treasury collateral has been stripped from their price – has fallen by more than 2.5 per cent since the end of the year, falling to a recent low of 754 basis points on May 17 compared with 1021 basis points at the end of last year and a recent high over the last 12 months of 1280 basis points in November last year.

> Brady bond yields have continued to fall while the yields on 30-year Treasuries have risen

This performance has occurred despite weakness in US Treasury bonds, which Brady bonds normally track closely. Since March Brady bond yields have continued to fall while the yields on 30-year Treasuries have risen. According to Mr Peter West, economic adviser at West Merchant Bank, the correlation between long bond yields and Brady bond price index, which is typically negative to the tune of 60 per cent, has fallen over the last three months to minus 2.54 per cent.

The recovery has also been apparent in the primary equity and bond markets. Latin American, eastern European and Far Eastern companies are coming to the international equity market in droves, attracted by growing institutional appetite for their issues. Many emerging market equity issues have been heavily oversubscribed. At the end of March, for example, Pliva, a Croatian pharmaceutical company, found that it could sell its $90m of global depositary receipts more than 20 times.

Analysts at ING Barings are expecting flows to total $50bn in 1996, more than three times the amount registered in 1995, and approaching the record level of $63bn set in 1993. So far, Ms Angela Cozzini, an analyst with the bank's global strategy unit, says rises in interest rates in Japan and the US could disturb these projections but that even in a "worst case scenario" some $30bn is likely to be directed towards emerging markets.

Several factors are driving the trend. In the equity markets, emerging market stocks have looked relatively cheap compared with what they were 18 months ago. At the beginning of the year India was on a price-earnings ratio of 10 times and Asian markets were trading in the mid-teens compared with their normal 20 times plus, for example. Expectations of rising economic growth and higher corporate earnings mean that this outlook should be sustained for at least the rest of the year. Ms Nancy Curtin, who manages the Barings Chrysalis Fund expects earnings growth to "accelerate sharply" in the second half of the year and is particularly bullish about prospects for some Asian and East European markets.

Emerging markets have also been helped by global liquidity. Until earlier this year, short-term interest rates were on a downward trend in the US, Europe and Japan. As a result with bond yields in the world's safe havens falling, investors have become hungry for higher yielding assets, leading many of them to turn to the emerging markets.

And the interest rate outlook has also been positive. Rates have begun to rise since March but with inflationary pressures dampened, most observers expect that rates are unlikely to increase as sharply as they did early in 1994, or during similar stages of previous credit cycles.

"Interest rate speculation per se is a declining aspect of what clients and we will focus on," says Mr John Costas, senior managing director, fixed income, North America at UBS in New York. "The fact is we won't have a 1,000 basis point rally over the next decade. It is just not possible."

Indeed, there are already some indications that interest rates – and bond markets – are becoming less volatile. As a result traders and investors seeking especially high returns are looking to back improving credits as a way to enhance yields. Many emerging markets, undergoing their own structural changes as a result of privatisation, successful counter-inflationary policies and strong export growth, offer particularly good bets.

Mr Ali Naqvi, head of the emerging market bond group at Citibank Global Asset Management, says US fixed-income fund managers are already becoming receptive to the argument that Brady bonds, the most widely traded emerging market debt paper, represent a kind of emerging market junk, which has much the same kind of relationship to emerging market equities as US corporate junk bonds do to US equities.

Borrowing the junk bond terminology of the 1980s, Mr Naqvi says: "Brady bonds are emerging market equities in drag. We make the comparison with corporate high yields. "It is an argument that makes them sit up," says Mr Naqvi.

Finally, investors also appear to be becoming more knowledgeable about the emerging markets. Following the sell-off of early 1995 they have become better able to differentiate between markets, and less prepared to tar all markets with the same brush.

"Mexico gave people pause for thought. It disrupted the process, bringing about a necessary realisation of the risks and creating more knowledgeable participants. Broader investor participation is clearly on its way," says Mr Costas.

■ **Russia:** by Richard Lapper

Opinion polls cheer investors

An improvement in macro-economic conditions has also been positive for the market

In a generally good year for emerging east European markets, investors in Russia have enjoyed bumper returns. Foreign investment flows especially into the equity markets have picked up on the back of expectations that President Boris Yeltsin will be returned to office in this month's presidential elections.

Between March 19 and the middle of May Russian equities have increased in value by an average of nearly 50 per cent, with the Moscow Times dollar index rising from a low of 54 to a current level of about 80.

Several individual stocks have done even better. Mosenergo, the Moscow-based energy company, and the country's most liquid stock, has risen from about 18 cents to 47 cents over this two-month period, an increase of 160 per cent.

Investors have taken heart from opinion polls showing that President Yeltsin is gradually gaining ground against his communist rival, Mr Gennady Zyuganov. In addition, however, they have been encouraged by improvements to the commercial and legal infrastructure.

Two important pieces of legislation – a new companies law and a new securities law – have been approved. The securities law prohibits companies that issue securities from quoting or trading their own shares and clarifies and strengthens the role of the Federal Securities Commission (FSC), the securities industry regulator. New moves designed to integrate new capital markets legislation into Russia's civil and criminal codes are planned, further strengthening shareholder rights.

Custody arrangements have become less hazardous and investors say that registration problems are no longer as onerous as they were last year. Some 48 independent registries have been formed in the last 12 months. Mr Nicholas Jordan, a director of the emerging markets division at Deutsche Morgan Grenfell, says that a year ago Russian brokers were "infamous for going back on done deals; and investors were rightly concerned that even after a purchase of shares they might not be able to get their name on the shareholder registry".

By contrast, "now there is an electronic trading system accounting for about 30-40 per cent of daily turnover, and the shareholder meetings this spring have shown that shareholder rights are finally a force to be reckoned with by management."

Foreign investors have been less visible in the bond markets, which are largely dominated by domestic institutions. Even here, though, opportunities have grown. New rules, introduced in February, have allowed foreign investors not only to buy Russian government treasury bills (GKOs) but to realise returns from their investments in dollars.

Yeltsin: recent polls forecast he will win the presidential election Picture: Reuter

Several banks – including Imperial Bank, Moscow Narodny Bank and Russian International Bank – have developed arrangements, allowing foreign investors to take out their profits in dollars. Yields on these deals currently amount to some 18 per cent.

Mr Vladimir Goussakov, head of the executive board at Bank Imperial, told a conference in mid-March that some R11,400bn – just under 10 per cent of all outstanding GKO issues – had been invested by non-residents in this way.

An improvement in macro-economic conditions has also been positive for the market. "The country may well achieve positive growth in real terms this year," says Mr Jordan. "It is running a strong current account surplus and has stabilised its currency and a package of rigorous reform policies are in place with the blessings of the IMF."

Indeed, if recent opinion polls prove to be correct in forecasting a Yeltsin victory, capital flows should increase, feeding through into improved earnings performances by Russian companies. Moreover, over the medium term the equity market should to begin to benefit from growing domestic interest, partially reflecting developments in the bond market.

Fiscal pressures are likely to lead the government to reduce barriers to foreign entry to the bond market, simply because the authorities will be under pressure to reduce huge debt servicing costs. When this happens, yields would fall and more domestic investment would be channelled into the equity market, buoying liquidity and prices.

Nevertheless, pitfalls still await the unwary. Political risk will continue to overhang the market, with opposition parties still dominant in the legislature. Many observers are sceptical about the impact of current moves to give real legal weight to the new securities laws. And Russian accounting standards will continue to perplex foreign investors. Under local accounting conventions, for example, earnings figures are of relatively little use for valuing Russian companies. One of the main indicators of performance in Russian accounting, for example, is a concept called "balance profit", which is often translated into English as pre-tax profit.

But as Mr Jordan explains, the concept defines the base from which companies calculate corporate income tax, and is cited before the deduction of a range of costs, ranging from social expenditure – which might amount to between 5 and 20 per cent of tax-deductible costs – to maintenance and equipment replacement.

There are also pitfalls in reliance on on other valuation techniques, such as those that measure the value of the market value of resources owned by Russian companies.

For example, the average Russian oil exploration and development company has a market capitalisation that works out at about 5 cents a barrel of its oil reserves, about 100 times lower than the equivalent figure for western oil companies.

Although that might seem like a good argument for buying, Mr Jordan argues that it ignores the cost of money, a significant omission in a market where investors in Russian T-bills can obtain hedged returns of more than 40 per cent a year. "An opportunity cost of 40 per cent per year equals 440 per cent net return in five years, and 2,800 per cent return in 10 years. You cannot just ignore the time factor of money in a market like this."

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■ **Specialised operators:** by Christopher Price

Pricing remains the key

While the newer operators may not like to stress the importance of price in attracting new customers, the subject remains a priority with the target audience

British Telecommunications' recent decision to cut its prices for business customers by between a fifth and a quarter is likely to bring a welcome relief to the company's hard-pressed sales squad.

With more than 150 licensed operators in the UK, competition, particularly in the business market, has never been more fierce. Price remains the key for most companies. But with the increasingly technological demands asked of industry's telecoms requirements, new services - and the ability to deliver them - are a growing requirement.

It was competitive pricing which helped to persuade Mr Viv Astling, chief executive of Dudley Borough Council, to opt to have the council's telecoms service outsourced to TeleWest, the UK's biggest cable company.

"We have lots of different locations and incur lots of costs just in external calls between departments. The TeleWest contract will save us £160,000 a year." The cable company is putting in a Centrex system, which will externally manage and route the council's telecoms traffic.

Mr Geoffrey Cheetham, vice-president of business services at TeleWest, says: "The way we win customers is though dialogue. We are smaller than most telecoms groups so we need to build trust. The Dudley contract was 18 months in negotiation." He adds that the group's tariffs can be very flexible. "We can compete very effectively and very specifically on price."

Mr Colin Williams, president and chief operating officer of MFS International, the holding company of MFS Communications, is also keen to stress his company's responsiveness.

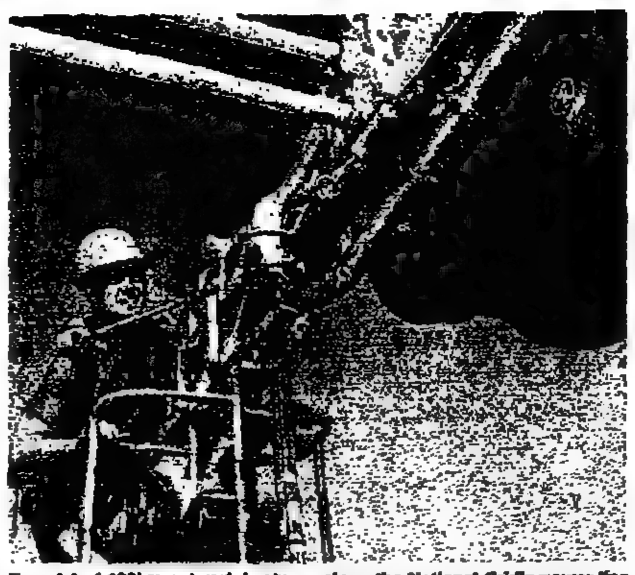
Grabiner: 'Our aim is to give more telecoms service for less'

"Our great strength is our flexibility," says Mr Williams. "Most companies' day-to-day telecoms problems are trivial for the operators but tremendously important for the customers. We aim to redress that problem. We are a 300-strong dedicated team, all with one aim in mind: to solve our customers problems."

MFS currently has 400 customers in the UK. The company is planning to extend its network to other cities, with Edinburgh and Birmingham likely candidates. It complements its network with agreements with other operators, such as BT, a trend Mr Williams sees as likely to continue.

Mr Michael Grabiner, chief executive of Energis, the telecoms operator owned by the National Grid, says: "Our aim is to give more telecoms service for less."

In the past three years, Energis has attracted 12,000 business customers, including the BBC, Reuters, Unisys, Great Universal Stores and Virgin Atlantic. Its key features include a sophisticated management billing facility, a frame relay service for data transmission and the fact that the network is based on Synchronous Digital Hierachy, which delivers greater capacity and speed than usual fibre optic systems.



Energis's 4,100km network is strung along the National Grid's power line network. Its key features include a sophisticated management billing facility, a frame relay service for data transmission and SDH technology

Its 4,100km network has been strung along the National Grid's power line network.

Mr Grabiner says the company's price positioning is "an obvious advantage" in the current market climate. "As a new entrant, people are looking to us to be competitive." He said Energis's tariffs were some 15 per cent below those of BT and Mercury.

The National Grid has said it expects Energis to be profitable between 1999 and 2000. Mr Grabiner says he is "very optimistic" that this target will be met.

Meanwhile, the company would continue to pursue alliances and agreements with other operators in order to bolster its own capacity and service provision. Mr Grabiner ruled out a merger, although conceded that the group's relationships with other telecoms groups would "inevitably grow closer and closer." The company already has a variety of agreements, from switching to connectivity, with the likes of MFS, Colt and Scottish Power.

While the newer operators may not necessarily like to stress the importance of price in attracting new customers, the subject remains a priority with the target audience.

"Energis were cheaper, it's as simple as that," says Paul Tomlins, manager of IT systems at Virgin Atlantic, who has recently signed a contract with the telecoms group. "We think they can provide as good a service at a lower price and in our business that counts for a lot."

The airline's telecoms needs are quite comprehensive and Mr Tomlins had some reservations about Energis's ability to deliver. "My main concern was reliability. Have they got the back-up? But Energis were totally flexible and will let me switch out of the network and the contract if the service lets me down."

Mr Tomlins fears were undoubtedly fuelled by the large established operators which stressed the importance of their service provision in bidding for the contract.

He estimates Virgin Atlantic will save between 25 and 50 per cent on its telecoms account by putting its business with Energis.

BT, for its part, is fighting back, assembling a specialist "win-back" team as part of its strategy to stave off the growing competition.

Mr Mike Kiely, head of BT's telephony marketing team, says the issue of price is often a mistaken one. "Companies may take their business away from BT on the basis of a perceived saving on price, but the actual savings they make are often far smaller and the service can also be a lot poorer."

He adds that a lot of the company's "win-backs" are achieved with BT's more effective billing systems.

Mr John Thompson would agree. The finance director of Matcon, the materials handling equipment manufacturer, has returned to BT after being with a lower-cost re-seller, and one of the reasons is he prefers the quarterly, 30 days to pay, account he receives, rather than the monthly direct debit.

The twin attraction of new discounts being offered by BT and services such as videoconferencing proved too attractive.

■ **Outsourcing:** by Christopher Price

Powerful financial benefits

Outsourcing was most popular among the manufacturing and transport groups, while the retail sector was least enthusiastic

Why are more and more companies choosing to hand over part or all of their telecoms requirements to their suppliers, or to third parties?

There are several reasons, ranging from the technical to the logistical. However, the most powerful argument for most companies is financial: outsourcing can save a company many thousands of pounds.

A recent survey by Ovum, the telecoms research group, showed that 60 out of 100 multinational companies operating in Europe used some form of outsourcing.

Reducing costs was the chief reason for outsourcing cited in the survey. However, respondents also expressed their need to utilise their time more effectively and concentrate on their core business – a reflection of the growing complexity and importance of telecoms in the business environment.

The lack of internal expertise to handle the growing telecoms business, and the cost of bringing in trained staff to handle it, were also integral to decisions to outsource. Issues of improved quality of service, functionality or availability ranked much lower in importance as reasons for adoption.

Those companies which had considered outsourcing but had decided against it had done so because of concerns over losing control of their network operations and security, and worries over any reduction in quality. However, these were the distinct minority. Less than 15 per cent of those surveyed said they would not be outsourcing any traffic in two years' time, compare with almost 50 per cent now.

Outsourcing was most popular among manufacturing and transport groups, while the retail sector was least enthusiastic. Ovum says this could be due to "corporate site distribution, where the dispersed nature of retail organisations contrasts with the relatively centralised nature of manufacturing companies, for whom outsourcing supply is relatively more simple."

Mr David Sexton, managing director of corporate business services at Mercury Communications, says the growth in outsourcing in different industries reflected changes in how telecoms technology had affected their particular markets. "The changes witnessed in financial services, for example, have meant a sea change in their telecoms requirements," he says.

Recognising the increased role of telecoms is one thing; persuading companies to outsource management of their network is another. "Our biggest competitor is those companies who think they can manage their systems more successfully and more cost-effectively than we can," says Mr Tim Murray, head of marketing at Sincordia, the outsourcing arm of British Telecommunications.

Most executives agree on the importance of building relationships with customers. "Most outsourcing comes from long-term relationships with customers," says Mr Sexton. "Once the trust is there, customers are more accepting of ideas on the application of outsourcing."

However, this acceptance is not given openly, and most companies are keen to monitor the performance of operators of their networks, both for cost-effectiveness and for security reasons.

Benchmarking, as it is called, is developing in sophistication as outsourcing grows. Nearly three-quarters of the Ovum survey involved in outsourcing had basic management agreements in place covering some aspect of performance measurement. Pricing guarantees were also found to be widely used, with the same proportion striking agreements with suppliers on the fixing of prices or a guaranteed reduction over the contract period.

Mr Barry Eliades, managing consultant at Ovum, recommends several "golden rules of benchmarking": agree details at the contractual stage; make sure responsibility for the contract is shared between the signatories; use an independent authority to carry out the benchmark; do not focus on price alone; define performance criteria that can be evaluated and compared; allow for "unique" features in the comparison process; use as a regular performance monitoring tool – not as a one-off spot check; and expect a qualitative conclusion rather than a quantitative result.

Benchmarking is being

AT&T aims to secure revenues of $1bn a year in Britain by the turn of the century

underpinned by the intense competition from telecoms groups for managing network services. While price competition can be fierce, the quality of service, and with it any monitoring aspects, are also highly prized.

The competition for outsourcing is reflected in the growing number of alliances being struck in order to surmount regulatory hurdles and to pool resources.

MCI, the second-largest US long-distance carrier, and BT, recently announced their intention to extend the services of their joint venture, Concert, to New Zealand. Concert, a "global supercarrier" offering seamless voice and data transmission services to large international customers, already operates in 50 countries.

BT acquired a 25 per cent stake in Clear Communications, New Zealand's second-largest telecoms operator. MCI already holds a similar stake in Clear. The move represented a strengthening of BT's presence in the Asia-Pacific region, where it is weak compared with Europe or the US.

The move came hot on the heels of AT&T, the largest US telecoms operator, announcing it was launching an assault on the UK telecoms market, with the outsourcing business segment a key objective. The US group's aim is to secure revenues of $1bn a year in Britain by the turn of the century, chiefly from the business market.

AT&T intends to offer a range of "intelligent" network services to large and medium-sized businesses which provide international operators with most of their revenues.

Britain is the first country outside the US where AT&T has acquired a licence, installed facilities and started to offer services. It already has a range of data transmission services for which it has more than 200 customers.

AT&T has an alliance with Unisource, a venture between four European operators, called UniWorld. AT&T says it does not plan to compete on price in the UK but by forming partnerships with customers. Its main competition in the fight for multinational customers is from Concert and Phoenix, a joint venture between Sprint of the US, Deutsche Telekom and France Telecom.

■ **Videoconferencing:** by Michael Dempsey

Industry expects sales to soar

The TSB Bank has installed nine videoconferencing studios to encourage all employees to cut down on travelling

In 1995, worldwide sales of videoconferencing systems totalled $600m. The industry expects this figure to climb to about $1.5bn during 1996 and claims that $7bn worth of systems will be sold annually by 1998.

The capability to link groups of executives over long distances has been around for more than a decade. But a big user base has emerged in the past few years. What has brought industry round to the idea that seeing colleagues on a monitor is just as effective as visiting their office?

John Brown Engineers & Constructors, a £1bn company that is part of the Trafalgar House group, employs 11,000 staff building oil, gas and petrochemical plants in 25 countries. Mr David Moorhouse, chief executive, uses a videoconferencing system from US market leader PictureTel to conduct 75 per cent of his international board meetings.

Mr Moorhouse is a videoconferencing enthusiast with reservations on the current state of signal quality when several parties are participating. The use of large videoconferencing screens does make a difference to the bottom line, Mr Moorhouse says. "If you're a widely-distributed business you do making savings on travel. And videoconferencing vastly improves the quality of discussion as opposed to the telephone."

The PictureTel 4000 features a large camera, giving a definition lacking in cheaper and smaller videoconferencing facilities. A keypad similar to a TV remote control allows each user to see his own image at the bottom of the screen. This particular system costs about £40,000, and John Brown E&C rents a special British Telecommunications line at £400 a month to maintain its videoconferencing facility.

This Integrated Services Digital Network, or ISDN, line links voice and visual images and allows the subscriber to make calls using data broken down into digital signals to more than 40 countries.

BT offers a service, called Continuous Presence, that allows several parties to share the space on one videoconferencing screen. Mr Adrian Butcher, head of sales and marketing at BT Visual Business, describes this as a Battenburg Cake effect, with executives from four separate locations each occupying one quarter of the screen. With Continuous Presence charged

Butcher: 'the real benefit lies in the frequency of high-quality interaction'

Moorhouse: 'videoconferencing vastly improves quality of discussion'

by the minute, Mr Butcher reckons a typical 40-minute meeting might cost £600. If this sounds extravagant for a four-way chat, it should be measured against air fares for three parties.

Mr Moorhouse is sceptical about the value of such an extra service. It relies on continuous ISDN transmission from four locations, and he says that existing technology means that this is not realistic for long conversations. Some signal interruption is almost inevitable.

John Brown E&C has not dispensed with conventional meetings. Mr Moorhouse insists that every fourth monthly board meeting is conducted face-to-face. "Videoconferencing still has a dimension missing from normal meetings," he says. And it is important not to let the system obscure the purpose of the conference.

Mercury Communications estimates the UK videoconferencing market at £60m a year. Mr Julian Ossowski, product manager for video services at Mercury, says that despite its shortcomings, ISDN has allowed this technology to make the breakthrough into mainstream applications.

"Five years ago, you had very specialised systems that needed a dedicated leased line using a fixed circuit between two end points. Over the past five years, suppliers have done a lot to make videoconferencing easier to use and they've brought the price down."

There are different levels of ISDN signal, but Mr Ossowski reckons that the arrival of a basic-rate ISDN made the whole idea of videoconferencing a lot more affordable.

Britain's TSB Bank has installed nine videoconferencing studios to encourage all employees to cut down on travelling. Mercury installed the system, employing PictureTel equipment.

Mr Brian Carson, information technology communications manager for TSB, thinks the use of a third party is an efficient way to manage a system distributed across the country: "Our network is managed by Mercury, so we just pay for use of the service."

Staff contact Mercury to book time on the system. Despite limitations such as a slight time-lag meaning participants can only speak one at a time, employees seem to have taken to the new technology. "It gets quite busy, any staff member can use it and you have to book your slot well in advance," a TSB spokeswoman noted.

Mr Butcher thinks that videoconferencing has picked up an unstoppable momentum. It is still predominantly a medium for senior staff. But the TSB's example is making an impression.

"Once enough people start to use it, word gets around and employees want it at more sites. Saving air fares and cutting down on travel time are the headline benefits. But the real benefit lies in the frequency of high-quality interaction. It almost acts as a lubricant for business."

An industry standard, known as H320, has emerged. This allows conferencing suites from different suppliers to link up. The readiness of rival manufacturers to embrace a common standard indicates a recognition that use of one system acts as a spur to the purchase of others.

Computer chip giant Intel Corporation sponsored a survey of 101 UK companies to coincide with its recent launch of a desk-top video and data exchange called ProShare. According to Intel, half the companies surveyed had active policies to reduce travel costs while 63 per cent felt more collaborative projects were being undertaken. This is the kind of response that has telecoms providers and computer makers sitting down to devise new products.

Hiccups with ISDN transmission will become the exception rather than the rule, and Mr Butcher cheerfully characterises the attraction of visual and voice signals on one broadcast: "ISDN gives you a bigger pipe to stuff your information down."

This simple if slightly brutal and very honest image stands for the attraction of the video screen. Unlike many telecoms innovations it is not difficult for companies to understand the value of putting together faces from four corners of the globe.

■ **Call centres:** by Stephen McGookin

Tremendous growth

Corporate users are taking advantage of opportunities to improve productivity

It is indicative of the dynamic nature of today's information economy that offices where a large number of people spend all day doing nothing but talking on the telephone can represent a significant sector of a local economy.

There has been a tremendous growth in the past few years of computer-assisted call centres – where specially trained staff handle customers' queries, requests or orders – to the point where management strategists find it hard to imagine any modern business which relies on high-volume telephone contacts not considering a centralised strategy. The Call Centre Management Association was set up last May and last month had 190 member companies across all market categories.

It is estimated that about 500,000 people are employed in about 25,000 call centres in the US, with about a tenth that number currently operating in the UK. The trend with call centres is that they are generally labour-intensive rather than capital-intensive.

In Glasgow alone, for example, there are about 40 call centres, where some 4,000 people work – particularly selling financial services by telephone. This represents about double the number employed in call centres last year. Call centres are thought to represent the fastest-growing sector of the city's economy.

The convergence of telecoms and computer systems has also made it increasingly easy for organisations to accumulate demographic information about their clients and customers.

With the concentration – and increasingly, the outsourcing – of corporate telephony requirements among large companies, technology provides the opportunity for gathering this data while performing normal response tasks.

Computer Telephony Integration (CTI) represents the logical marriage of computer and telephone technology and while it is still in its early stages of development and application, the potential markets are expanding and corporate users are taking advantage of the opportunities to improve customer responsiveness and overall productivity.

CTI systems gather and use information about an individual caller – such as their telephone number or an identifying account number – using a touch-tone telephone to call up information from a customer database. Information about the caller can then be sent to the computer screen of the person dealing with the call – in some cases before the call has even been put through.

Mercury Communications' Caller Line ID, for example, is one such system which recognises an incoming customer number and launches details of an order from the customer database so the operator can

> London Electricity amalgamated its five call centres over a six-week period

appear knowledgeable and save time in dealing with queries.

The past couple of years have also seen the growth of remote offices, as organisations begin to sort out the integral parts of their non-production functions, creating remote electronic centres to handle mostly administrative and bureaucratic tasks.

London Electricity amalgamated its five call centres over a six-week period last year. The amalgamated site deals with about 37,000 calls a week; about 10,000 fewer than the sum of the five separate locations. Freemans, one of Britain's largest mail-order companies, took an important decision to relocate its customer call-handling facility from south London to Sheffield. The company also set about amalgamating two existing call centres – one in Norbury, south London, and one in Yorkshire – into one in new premises. A third location in Orpington also acts as a specialist order and overflow centre.

As large companies are moving increasingly towards integrating their European operations, there is also a growth in the number of multilingual, trans-European call centres.

For example, consultancy Groupe Merit has established an international network of call centres and is co-ordinating its activities through its Internet site (www.meritgroup.com) using electronic mail. The site gives the company's customers access to the sites of fellow clients, such as Digital, Hewlett-Packard and Du Pont.

Meanwhile, leading outsourcing firm Softbank PSC markets technical support throughout western Europe and provides integrated hotline support services for software developers, hardware manufacturers and corporate end-users. It has 30 clients, including Microsoft, Siemens-Nixdorf, and Claris.

Softbank PSC handles more than 1m support calls a year and has a multilingual staff of more than 200 people.

From the corporate organisation viewpoint, one product range employed to help develop the efficiency of remote telephony functions is the Flexible Office from GPT Communication Systems, which has been recently installed by Coopers & Lybrand, and which allows the firm's consultants increased flexibility to work at maximum efficiency whatever their location.

Flexible Office is a communications package which links a company's PBX switchboard with its computer system, allowing users to maintain access to their office resources while working at any remote telephone. It also offers cross-platform portability and can be upgraded to offer total PC access from any networked workstation.

The application of the system at Coopers & Lybrand has increased the staff's use of hot desking, voice messaging and teleworking facilities. Because it also supports ISDN, Flexible Office offers multimedia applications such as videoconferencing.

Coopers & Lybrand now has more than 2,000 advisers from London and Birmingham using the Flexible Office. Mr Bart Francois, the firm's head of telecoms, said: "Location is no longer an issue. Even if people are at home, provided they have a touch-tone phone they can recreate their office. So it is really more than hot desking.

"Not only do our clients receive a totally dedicated service, but we can save on valuable office space to such an extent that a system that cost us approximately £540,000 is set to save us millions."

■ **International simple resale (ISR):** by Eden Zoller

A viable alternative

ISR operators are able to offer highly competitive international call rates

The cost of international and long-distance calls is falling. One of the reasons for this trend is the growth of a class of operators in the UK who offer a viable, highly competitive alternative to British Telecommunications and Mercury Communications.

These are users of International Simple Resale (ISR), whose role is to buy capacity on other carriers' international circuits which are attached to the public switched telephone network at both ends.

ISR is only allowed in certain designated countries that have a liberalised telecommunications regulatory environment mutually recognised as such by the countries involved.

To date there are eight designated ISR countries: the UK, Sweden, Denmark, Finland, the US, Canada, Australia and New Zealand. Chile, which has one of the most competitive telecoms markets in the world, is expected to join soon, thereby becoming the first ISR designated country in Latin America.

Although there are only a handful of ISR designated countries, most of the larger operators can offer international services on a global basis. They do this by an often complex traffic routing system whereby a call can be sent to an ISR designated country where the ISR operator will have its own switch, and then bounced back to a non-ISR designated country that could be just about anywhere. This could involve a call from the UK to France being routed via the US.

ISR operators are able to offer highly competitive international call rates, with most claiming average savings of around 30 per cent to 40 per cent against Mercury and BT. For example, Malvern Instruments, a Worcestershire-based analytical instrumentation specialist, reckons that since switching earlier this year from BT to the ISR service provided by Swedish national operator Telia, it is saving between £300 and £400 a month on international calls. Malvern Instruments' total spend per month on international calls is between £2,000 and £3,000, much of it in the form of data transmission.

Telia established a UK operation and ISR service last November and is one of a handful of ISR operators in the country. Other operators include Telstra of Australia, ACC Long Distance and WorldCom of the US, and start-up company First Telecom which launched services last summer and is one of the few home-grown ISR operators.

Like most ISR operators, First Telecom is targeting the small to medium-sized enterprises (SME). It claims it can save business users up to 40 per cent off BT international calls on some routes – for instance a peak-time call to Japan costs 43 pence a minute with First Telecom compared

> ISR operators choose the cheapest routes available

with about 71 pence with BT. In common with other ISR operators, First Telecom also offers value added services such as voice mail and access to 0800 numbers.

Most ISR operators also offer cut-price domestic long-distance calls within the UK. A small number are even studying the residential market, which is generally regarded as unlikely to generate the kind of call volumes needed to make even the smallest of margins. ACC Long Distance is something of a pioneer in that it has always offered international and domestic long-distance services to the residential market via its ACCsess 1601 service.

It might seem surprising that ISR operators can undercut Mercury and BT which have a duopoly of facilities-based international telephone services in the UK, meaning they are the only operators in this country with the right to transmit international calls over their own networks. This begs the question, how are ISRs operators able to offer substantially cheaper rates?

The main reason is that ISR operators buy bulk capacity on international circuits and choose the cheapest routes available for delivering calls, passing on the savings to customers.

ISR operators usually refuse to reveal who they buy bulk capacity from, but invariably it involves a number of different carriers including national operators such as BT, the leading US long-distance operators such as AT&T and Sprint, and submarine cable and satellite operators.

Another factor in ISR operators' favour is that they are not weighed down by the high overheads that burden BT and others. ISR operators can also avoid the accounting rate system which dictates how incumbent carriers such as BT split revenues from international calls, which is blamed in part for keeping international call charges high.

However, it would be wrong to conclude that ISR operators are about to take over the world. BT still controls 70 per cent of the international market with 1994-95 revenues of £958m, according to UK regulator Oftel, followed by Mercury Communications with a 24.5 per cent share worth £335m. The remaining 5.5 per cent of the market is shared between Kingston Communications, cable television operators and ISR operators.

ISR operators work in an increasingly competitive environment. BT and Mercury are alive to the threat and are moving to cut their pricing and introduce discount packages to keep customers loyal.

Nevertheless, ISR operators such as Telia seem confident that they can do more than just hold their own and can even grow business by carefully nurturing sectors it believes BT and Mercury serve poorly. This includes the SME market that ISR operators say has been neglected by BT and Mercury in favour of large corporate customers.

Meanwhile, the government has announced plans to open up the UK facilities-based international calls market to more competition. But ACC Long Distance reckons this will only marginalise the smaller ISR operators and that the arrival of new facilities-based competitors might force down the wholesale of the international private circuits which form the backbone of an ISR operator's business.

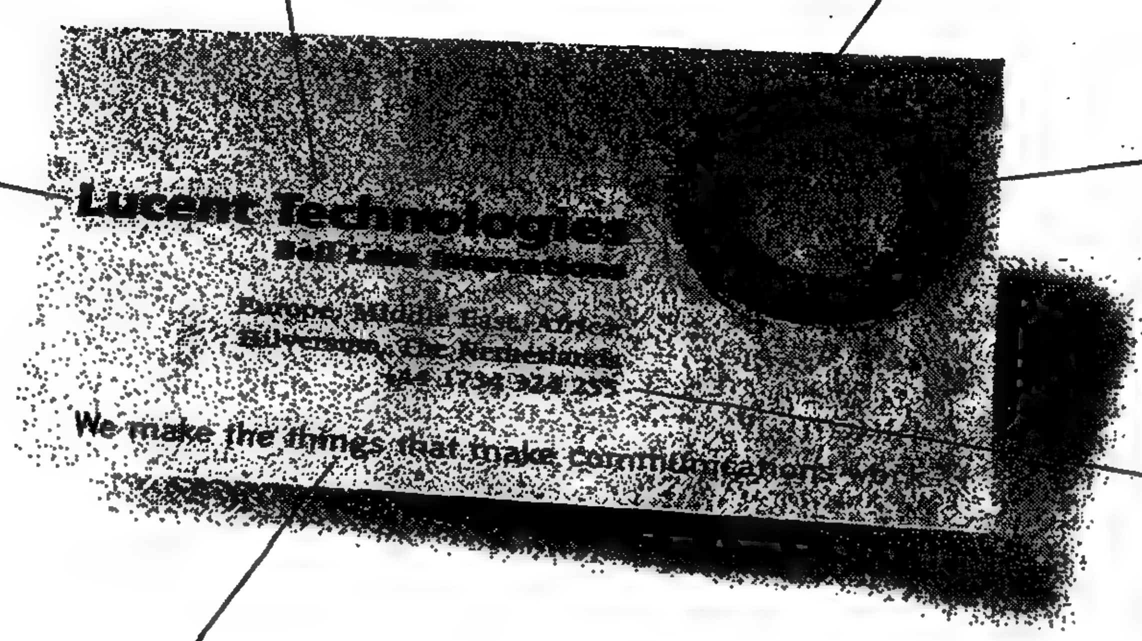
The author writes for Financial Times newsletter Telecom Markets

new company

new logo

new name

new color (red)



new number

(former systems and technology
businesses of AT&T, plus Bell Labs,
with 125 years experience
in making the things that make
communications work)

■ **Mobile telephony:** by Kris Szaniawski

Wide range of advanced features

All sorts of extras such as voice mail are already being used to add value to mobile services

So-called "plain vanilla" cellular services are no longer enough – increasingly, telephone operators are having to offer a variety of advanced services to fend off competition and also to retain profitability.

Mobile data, mobile-fixed convergence, and various enhanced services such as voice mail and information provision are increasingly being offered in addition to straightforward mobile voice calls.

This is partly the result of the increasing maturity of the UK cellular market. According to the Financial Times newsletter Mobile Communications, by the beginning of May there were almost 6m cellular subscribers – or 10 per cent of the population.

The rapid expansion of the digital networks – whether Vodafone's and Cellnet's GSM networks or Orange and Mercury One-2-One's DCS-1800 PCN networks – is being driven partly by the greater availability of a wide range of advanced features. About one third of total subscribers are now connected to a digital network; still below the western European average of 50 per cent but growing fast. The congested analogue networks have started to contract as heavy users and business users upgrade to digital.

The digital networks are better capable of supporting data transmission than the old analogue networks because they can support higher speeds and the data is less likely to be corrupted.

All sorts of enhanced services such as voice mail are already being used to add value to mobile services, and new ones such as Internet access are being introduced all the time.

According to UK consultants Ovum, currently available value-added services can be divided into five main categories: call handling services such as call barring, conference calls and call divert; messaging services such as voice mail, SMS, and gateways to paging services; data services such as digital circuit-switched and packet-switched data; corporate services such as integrated fixed and mobile numbering and mobile virtual private networks; and billing and accounting services such as itemised billing and links to smart cards. The list is already extensive and with technological advances it is growing fast.

Voice mail is now one of the best-established products, with some European markets boasting penetration as high as 60 per cent among cellular subscribers.

Short Message Service (SMS) – which allows messages of up to 160 characters to be transmitted over a standard digital phone – and voice mail are being used to support a wide range of information services which already includes stock market and exchange rate reports, general news updates, weather reports and sporting information.

For example, during the Euro 96 football tournament, selected Vodafone subscribers will be able to receive full-time and half-time scores from football matches.

At the beginning of May, PCN operator Orange launched a service which provides direct access from its mobile network to the network of Internet access provider Demon. The link reduces costs, improves quality and takes only eight to 10 seconds to establish a connection. Other digital operators have already established, or are establishing, similar links.

Another source of increasing revenue for mobile operators is mobile data. As well as the more basic SMS already described, the digital networks can also support full two-way fax and data transmission at up to 9.6Kbit/s. All the user needs is an appropriate data card to connect a GSM or PCN handset to a lap-top computer or fax.

An innovative use of smart cards is the basis of a relationship between Cellnet and Barclaycard. Last November, Cellnet started trials of a scheme which allows Barclaycard customers to save up to 20 per cent on Cellnet calls. The scheme has now been officially launched. It is more than just a marketing exercise, because the cellular customers can already be billed to their Barclaycard account and in the near future they will be able to access financial information, make transfers between accounts, and make use of other services, all over their mobile phone.

Operators are also increasingly launching products which blur the previously sharp distinction between mobile and fixed telephony.

Cellnet has a call management system called Personal Assistant (PA), which helps integrate a company's fixed and mobile networks. Users of Cellnet PA are allocated a single contact number for all types of communication worldwide. The system is programmed with a schedule of the user's locations and times when they can or cannot take calls and Cellnet PA's "find-me" facility then chooses the appropriate response when a call or fax is made. Anyone calling on the single contact number does not know if they are being directed to a fixed or mobile phone.

An even more advanced system is Cellnet's Mobile Extension service which integrates a company's mobile phones into its private network.

There are cost implications, however. Making mobile phones appear to be no more than an extension of the fixed network makes it difficult to justify charging more.

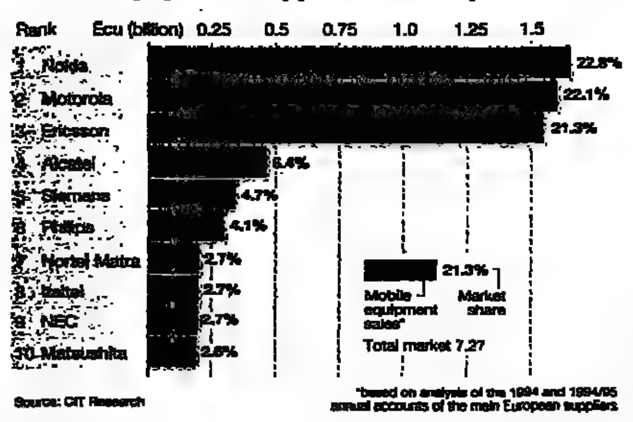
This is already happening where companies are offered the choice of linking their PBX or switchboard directly to a mobile telephone network. By leasing a line which connects the company PBX to a switching centre, mobile phones effectively become internal extension numbers. This cuts mobile costs to and from the office and allows faster dialling and connections. It also allows different ways of working to be introduced. For example, incoming calls which would normally have to be handled by a switchboard can be automatically directed to one of a group of mobile phones, allowing more staff to work outside an office or in a small office. And this introduces the possibility of dispensing with a receptionist.

The next stage in mobile and fixed convergence will be the launch of hybrid services which link digital cellular networks with cordless systems based on cordless business system technology standards such as CT2 (Cordless Telephony 2) and Dect (Digital European Cordless Telecommunications).

Dual-mode handsets which are due on the market soon will allow subscribers to use cheaper cordless technology (which has been adapted for the purpose) in the office and digital GSM or PCN technology when out of the building. Increasingly, customers will be able to access a vast range of services over a single handset wherever they are.

The author writes for Financial Times newsletter Telecom Markets

Mobile equipment suppliers in Europe



Source: CIT Research

*based on analysis of the 1994 and 1994/95 annual accounts of the main European suppliers

■ **Mobile data:** by Kris Szanlawski

Rapid expansion predicted

With time, various forms of data transmission, SMS and fax will all become interchangeable, removing current barriers to communication

Following the rapid growth in mobile voice services, the next big market is expected to be in data services, as business people are totally freed from the constraints of working from a fixed location.

According to independent analysts BIS Strategic Decisions, the number of mobile data users in the UK will increase six-fold over the next three years.

Digital cellular operators such as Cellnet, Vodafone, Orange and Mercury One-2-One stand to gain as much from this rapidly expanding market – if not more – than dedicated data-only networks.

The cost and technological benefits of data-only networks will ensure that this sector will continue to expand but cellular operators are likely to be the biggest beneficiaries of the creation of a mass market in data. The benefit of being able to seamlessly combine mobile voice telephony with data transmission will be a big draw for non-specialised users.

The ability to roam outside the UK over other GSM (General Systems for Mobile – the European-wide standard for cellular telephone communications) or PCN (Personal Communications Network – essentially GSM operating at a higher frequency) networks is an added attraction and a number of data roaming agreements have already been signed.

The digital cellular networks – whether using the GSM standard employed by Vodafone and Cellnet or the DCS-1800 PCN standard employed by Orange and Mercury One-2-One – are capable of supporting a variety of data services and many applications have already been introduced.

Electronic mail is the first important horizontal data application, triggering interest from a wide range of users.

The current generation of digital phones already supports fax, short message services (SMS) and data transmission.

SMS is the non-interactive communication of short messages on a cellular network able to handle up to 160 characters on most handsets and up to 250 if compression techniques are employed.

GSM and PCN can also support full two-way fax and data transmission at up to 9.6Kbit/s and the leading digital networks have recently introduced these.

With the appropriate data card, a subscriber can plug a lap-top computer or fax into a GSM or PCN handset and be in instant contact with the office. British Telecommunications field engineers, for example, are able to use the Cellnet network to access manuals stored on a computer back in the office.

However, there are still limitations at 9.6Kbit/s – for example, it is possible to access the Internet but downloading a file can be a slow process.

The leading digital network operators have also recently started offering special, cheaper data-only tariffs on their networks to compete more directly with the dedicated data carriers.

The next step is to integrate the various capabilities. For example, Vodafone is currently testing a Telenote fax service which would allow SMS to be sent directly to a standard fax, and hopes to launch it commercially before the end of the year.

With time, various forms of data transmission, SMS and fax will all become interchangeable, removing current barriers to communication.

The future is looking even more promising for cellular operators as technologies converge. "The time is almost right for mobile data to take off," says Mr John Darnbrough of consultants Analysys.

"Over the next two to three years we will see a significant increase in data traffic over digital cellular, although initially a lot of it will probably be SMS and e-mail." Mr Darnbrough estimates that it will be 12 to 18 months before mobile data becomes significant in revenue terms to cellular operators.

In some countries the process is already further advanced. According to Danish GSM operator Sonofon, 5 per cent of its subscribers already use data now, as opposed to a European average closer to 2 or 3 per cent.

All sorts of advanced applications are being tested. For example, Derbyshire Constabulary in conjunction with Cellnet is conducting trials with Apple Newton message pads, enabling police officers to send various forms of data back from the scene of a crime and so avoid having to return to the police station to fill in paperwork.

New products are also being launched which integrate computing and telecoms technology. Developments in hardware are making it possible to do more. Last autumn Nokia unveiled its Nokia 9000 communicator which combines a palmtop computer and cellular handset in one unit. It looks like a chunky mobile handset but also includes a screen and proper keypad.

Another solution recently launched on the market is the HP Omnigo communicator, which is a palmtop computer with a data card already built into it and which has a special port that can accept a Nokia GSM or PCN phone. All you do when you wish to send some data is slide your handset into position on the communicator.

> Niche users include field engineers, traffic wardens and emergency services

Both these new communicators attempt in their different ways to tackle the problems which dogged the first generation of handheld computers, which was that they sacrificed computing power while still remaining fairly bulky and expensive. The way forward seems to be either to reduce the size further by making the computer more akin to a personal organiser, or to go for a more flexible solution as with the HP Omnigo. The HP Omnigo retails at about £700 while the Nokia 9000 sells for about £1,500.

Dedicated two-way data-only networks, meanwhile, are far more suited to the needs of large service companies or customers with a need for niche applications such as service engineers.

Data-only network services such as RAM Mobile Data, Paknet or Cognito focus mainly on vertical market sectors and business applications.

The two big dedicated data technologies in Europe at present are DataTAC backed by Motorola and Mobitex backed by Ericsson. They have the ability to send large amounts of data at great speed, making them particularly attractive for niche applications.

Niche users include field engineers, traffic wardens, emergency services, parcel delivery companies and traffic monitoring services – an example of which is the Trafficmaster in-car information system.

The UK government is also in the process of choosing two national operators to run new public access mobile radio (PAMR) services using the digital Trans European Trunked Radio (Tetra) pan-European standard which has extensive data capabilities.

Paging operators are also seeking to retain a share of the data market through the launch of services based on new digital technology.

The League of Communications.

Deutsche Telekom, France Telecom and U.S. company Sprint have now joined forces to create a unique new worldwide communications alliance: Global One*. For customers who need to operate right around the world, this alliance offers the full range of state-of-the-art telecommunications options – on a truly global scale.

* The Global One venture is subject to regulatory approval.

Nowadays, companies aren't just selling worldwide: they're also developing, purchasing and manufacturing in a variety of different international locations. Hence the explosion in demand for high quality global communications. To satisfy this demand, we have pooled the cream of European and American telecommunications resources in a unique three-way international partnership.

The strongest alliance in the world.
In the words of the U.S.A.'s Forrester Research Institute: "Together, Deutsche Telekom, France Telecom and Sprint form what is probably the strongest alliance in the world." It goes on to highlight our common vision, compatible products, virtually complete international coverage and vast combined experience in network technology. In short, this alliance promises unrivalled professionalism and integrated expertise. Indeed, from the start, some 2,500 specialists at 1,200 locations in more than 50 countries will be putting their global network-building skills at the disposal of customers who need to be able to communicate right round the world.

The League of Communications.
With Global One, we have set our sights on transforming the quality of international communications. As an independent company with its own worldwide network, Global One can offer customers comprehensive, customised communications packages from a single source, using the skills and expertise of all three partners in the alliance. France Telecom is the world's fourth largest telecommunications company and boasts outstanding performance and many years' experience in the field of global data services. As a serious performer in all the major international markets, Deutsche Telekom has the densest fibre optics network in the world and offers satellite capacity from all the leading operators, not to mention top quality connections, particularly to Eastern Europe. Sprint is one of the biggest names in American telecommunications. It has a unique, fully digitised fibre optics network throughout the U.S. and excellent connections in the Pacific Rim. Put all that together and it's not hard to see why we called the new alliance Global One.

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Deutsche Telekom is Europe's No. 1 telecommunications company – and the second largest network operator in the world. We continue to lead from the front in pioneering new technologies. In fact, since 1990 we have invested DM 135 billion in new telecommunications infrastructures, which makes us the world's single largest investor in this area. We offer multimedia and online services, "smart" networks and a wealth of experience and know-how – all backed by strong business partnerships which span the globe. Add the resources of our new worldwide consortium and you have an international communications capability which cannot fail to benefit your business.

Our connections move the world.

Deutsche Telekom

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 7 / Sch)

BELGIUM/LUXEMBOURG (Jun 7 / Frs.)

CZECH REP (Jun 7 / Koruna)

DENMARK (Jun 7 / Kr)

FINLAND (Jun 7 / Mks)

FRANCE (Jun 7 / Frs.)

GERMANY (Jun 7 / Dm.)

GREECE (Jun 7 / Drachma)

ITALY (Jun 7 / Lira)

NETHERLANDS (Jun 7 / Fls.)

NORWAY (Jun 7 / Kroner)

POLAND (Jun 7 / Zloty)

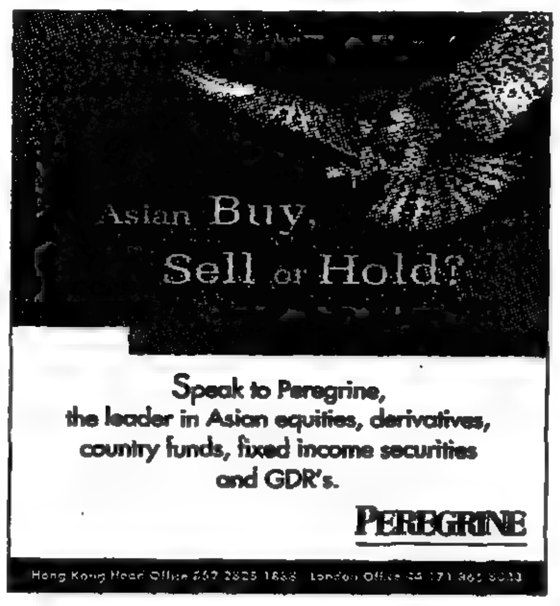
PORTUGAL (Jun 7 / Escudo)

SPAIN (Jun 7 / Pts.)

SWEDEN (Jun 7 / Kronor)

SWITZERLAND (Jun 7 / Frs.)

TURKEY (Jun 7 / Tk Lira)



PACIFIC

JAPAN (Jun 7 / Yen)

AUSTRALIA (Jun 7 / Aust$)

HONG KONG (Jun 7 / H.K.$)

INDONESIA (Jun 7 / Rupiah)

MALAYSIA (Jun 7 / MYR)

NEW ZEALAND (Jun 7 / NZ $)

SINGAPORE (Jun 7 / S$)

SOUTH KOREA (Jun 7 / Won)

TAIWAN (Jun 7 / TW $)

THAILAND (Jun 7 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jun 7 / Can $)
4 pm close

MONTREAL (Jun 7 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Jun 7 / Rand)

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Prices in US $.

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INDICES

	Jun 7	Jun 6	Jun 5	1996 High		1996 Low	
Argentina							
General(29/12/77)	18104.91	18205.44	18148.58	18861.88	20/5	18026.81	19/3
Australia							
All Ordinaries(1/1/80)	2220.1	2213.8	2229.7	2328.00	26/4	2167.40	11/3
All Mining(1/1/80)	1045.6	1040.1	1057.1	1118.40	8/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	380.90	(c)	381.92	384.89	31/5	352.78	2/1
Traded Index(2/1/91)	1136.23	(c)	1138.89	1142.91	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1747.83	1757.29	1760.94	1773.28	28/5	1574.80	2/1
Brazil							
Bovespa(29/12/83)	55302.0	(c)	55879.0	57109.00	28/5	43801.00	2/1
Canada							
Metals Minrls♦(1975)	5236.86	5304.64	5326.27	5824.60	6/5	4667.42	16/1
Composite♦(1975)	5137.30	5158.37†	5194.90	5238.80	22/5	4739.78	15/1
Portfolio$$(4/1/83)	2511.72	2524.64	2536.79	2555.55	27/5	2327.38	12/1
Chile							
IGPA Gen♥(31/12/80)	5345.87	(c)	5331.32	6804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	403.43	403.37	(c)	407.07	28/5	366.40	2/1
Finland							
HEX General(28/12/90)	2008.48	2034.24	2043.15	2070.42	31/5	1651.67	16/1
France							
SBF 250(31/12/90)	1441.56	1457.56	1448.53	1457.56	6/6	1258.18	2/1
CAC 40(31/12/87)	2101.99	2133.22	2115.35	2146.79	30/4	1887.86	11/1
Germany							
FAZ Aktien(31/12/58)	902.56	(c)	889.45	904.93	23/5	818.58	2/1
Commerzbank(1/12/53)	2581.30	(c)	2281.10	2601.90	23/4	2270.20	2/1
DAX‡(30/12/87)	2557.43	(c)	2552.53	2570.78	21/5	2284.86	2/1
Greece							
Athens SE(31/12/80)	822.91	816.37	822.90	1017.86	4/3	801.03	29/4
Hong Kong							
Hang Seng(31/7/64)	11196.55	11225.63	11092.51	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1979)	3867.88	3830.31	3813.05	3959.87	24/4	2826.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	612.76	613.22	616.07	638.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2555.45	2576.17†	2568.06	2576.17	6/6	2234.81	2/1
Italy							
Banca Comm Ital(1972)	660.94	664.98	661.92	674.10	20/5	572.21	23/3
MIB General(2/1/95)	1120.0	1127.0	1122.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21751.81	21804.46	21881.43	22282.66	24/4	19734.70	13/3
Nikkei 300(1/10/82)	308.35	309.70	310.89	318.08	26/4	284.48	11/3
Topix(4/1/68)	1659.69	1666.48	1675.10	1718.89	26/4	1524.12	13/3
2nd Section(4/1/68)	2184.95	2206.15	2214.27	2263.38	2/5	1892.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1131.07	1138.75	1125.29	1180.64	30/4	988.18	2/1
Mexico							
IPC(Nov 1978)	(c)	3271.94	3287.24	3382.88	22/5	2738.38	8/3
Netherland							
CBS TtlRtnGen(End 83)	644.2	650.5	646.9	650.50	6/6	590.50	2/1
CBS All Shr(End 83)	382.1	385.9	384.9	385.90	6/6	352.29	2/1
New Zealand							
Cap. 40(1/7/86)	2025.14	2025.18	2044.43	2200.06	4/1	2003.14	7/6
Norway							
Oslo SE(Ind(2/1/83)	1435.58	1440.55	1441.65	1449.65	6/6	1268.68	30/1
Philippines							
Manila Comp(2/1/85)	3273.11	3237.26	3230.57	3386.20	30/5	2878.87	2/1
Portugal							
BVL 30(4/1/93)	1882.65	(c)	1886.22	1888.00	30/5	1682.81	2/1
Singapore							
SES All-S'pore(2/4/75)	587.84	587.11	581.41	649.37	6/2	553.88	2/1
South Africa							
JSE Gold(28/9/78)	1812.3♥	1816.0	1876.5	2880.40	28/5	1848.48	2/1
JSE Ind.(28/9/78)	7986.3♥	8037.5	7989.5	8739.30	25/1	7733.28	29/5
South Korea							
KoreaCompEx**(4/1/80)	907.83	(c)	913.25	986.84	7/5	838.87	13/3
Spain							
Madrid SE(30/12/85)	363.34	365.00	362.58	366.69	6/6	320.75	11/1
Sweden							
AffarsvarldnGen(1/2/37)	1998.4	2019.0	2005.2	2019.00	6/6	1708.80	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1718.49	1732.59	1727.24	1779.54	26/4	1616.10	17/1
SBC General(1/4/87)	1216.36	1226.32	1221.47	1259.88	26/4	1114.47	26/1
Taiwan							
WeightedPr.**(30/6/66)	6095.54	6019.65	5951.86	6082.70	29/4	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	1284.34	1283.53	1276.61	1405.84	6/2	1247.78	13/3
Turkey							
Istanbul Cmp.(Jan 1986)	65568.6	63946.4	62310.2	72866.50	8/4	38772.30	2/1
WORLD							
MS Capital Intl(1/1/70)	769.4*	776.2	779.5	789.30	23/5	725.80	16/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1679.84	1687.55	1684.32	1689.17	28/5	1584.40	11/1
Euro Top-100(26/6/90)	1434.12	1447.61	1442.85	1458.28	26/4	1333.01	11/1
HSBC JC Drgs(31/12/88)	(c)	378.69	375.94	383.16	16/4	344.19	2/1
ING Brngs Emrg(7/1/92)	161.19	161.22	160.46	164.34	14/5	147.85	2/1

** Sat Jun 1 : Taiwan Weighted Price 5983.39; Korea Comp Ex 907.98. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. $$ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 7 – 2536.03 -22.98

† Correction. * Calculated at 15.00 GMT. @ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Jun	2117.0	2087.0	-32.0	2130.0	2076.0	27,004	54,880
Jul	2114.5	2084.5	-32.0	2123.5	2082.0	1,257	6,648
DAX							
Jun	2555.0	2540.0	-13.5	2565.5	2525.0	23,882	160,087
Sep	2574.5	2558.5	-13.0	2584.0	2546.0	1,214	–
OMX							
Jun	1580.25	1562.42	-26.58	1583.00	1553.00	4,213	17,452
Jul	1588.00	1563.00	-31.00	1588.00	1563.00	105	1,986
SOFFEX							
Jun	3574.0	3542.1	-38.0	3588.0	3530.0	9,802	25,443
Jul	3583.0	3544.0	-38.0	3585.5	3544.0	4,911	7,535
S&P 500							
Jun	673.05	673.80	+0.55	674.50	661.25	72,745	149,173
Sep	667.10	679.70	+0.60	680.15	667.10	8,404	47,086
Nikkei 225							
Jun	22010.0	21850.0	–	22060.0	21780.0	23,285	225,820
Sep	22130.0	21880.0	-70.0	22140.0	21880.0	20,750	132,544

Open interest figures for previous day.

US INDICES

Dow Jones	Jun 7	Jun 6	Jun 5	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5697.11	5697.10	5687.48	5778.00 (23/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.48	101.77	101.84	106.89 (14/2)	101.19 (8/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2237.41	2253.88	2252.25	2256.20 (22/5)	1982.71 (18/1)	2256.20 (22/5/96)	12.32 (8/7/32)
Utilities	209.47	210.24	210.87	224.80 (12/2)	205.42 (7/5)	256.40 (31/1/93)	10.50 (8/4/32)

DJ Ind. Day's high 5708.93 (5750.87) Low 5559.89 (5638.46) (Theoretical♦)
Day's high 5697.11 (5722.98) Low 5580.38 (5665.34) (Actual♦)

Standard and Poors	Jun 7	Jun 6	Jun 5	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	673.31	673.88	678.44	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials‡	803.03	800.00	807.88	807.88 (5/6)	702.87 (15/1)	807.88 (5/6/96)	3.62 (21/6/32)
Financial	67.34	68.22	68.56	68.56 (5/6)	58.87 (10/1)	68.56 (5/6/96)	8.64 (1/10/74)
NYSE Comp.	380.61	381.18	383.38	383.74 (24/5)	321.41 (10/1)	383.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	599.31	602.94	608.27	614.80 (22/5)	520.65 (18/1)	614.80 (22/5/96)	29.31 (9/12/72)
NASDAQ Comp	1229.78	1232.54	1248.14	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

RATIOS

	May 31	May 24	May 17	Year ago
Dow Jones Ind. Div. Yield	2.18	2.15	2.17	2.48
	June 5	May 29	May 22	Year ago
S & P Ind. Div. yield	1.83	1.86	1.83	2.21
S & P Ind. P/E ratio	22.74	22.38	22.71	18.77

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Halsam	10,370,100	14⅝	+⅜
K-Mart	8,854,400	12	–
IBM	8,140,300	101¾	+⅛
Autozone	5,097,800	35⅝	+⅜
Humana	4,446,500	19	-4⅝
Digital Eqpt	4,402,100	46	-⅛
Wal-Mart	4,024,500	25	+⅛
Micron Tech	3,578,800	30⅝	+1⅛
Federal Nt	3,275,000	31⅝	-⅛
Bay Netwk	3,253,700	25⅝	-⅛

TRADING ACTIVITY

Volume (million)	Jun 7	Jun 6	Jun 5
New York SE	448.251	463.130	375.378
Amex	29.511	28.148	25.737
NASDAQ	(u)	655.421	655.367
NYSE			
Issues Traded	3,135	3,145	3,163
Rises	652	1,018	1,401
Falls	1,800	1,382	980
Unchanged	670	745	802
New Highs	28	121	116
New Lows	57	17	18

TOKYO – MOST ACTIVE STOCKS: Friday, June 7, 1996

	Stocks Traded	Closing Prices	Change on day
Fuji Hvy Inds	19.4m	522	+14
Kanematsu Corp	18.0m	755	+7
Ishihara Sangyo	4.3m	395	+6
Clarion	4.0m	526	-3
Dainippon Ink	3.5m	535	+7
Daido Stl Sheet	3.4m	1630	-170
Fujitsu	3.1m	972	-16
Mitsubishi Hvy	2.7m	917	-6
Nikko Secs	2.7m	1140	-10
Nagasakiya	2.4m	888	+12

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jun 7		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6484	+0.0573	419 - 548	16.6795	16.5941	16.6171	2.3	16.5421	2.6	-	-	104.8
Belgium	(BFr)	48.6969	+0.1917	466 - 272	48.7660	48.4750	48.5619	2.8	48.3719	2.6	47.3719	2.7	108.5
Denmark	(DKr)	9.1338	+0.0286	297 - 379	9.1535	9.0978	9.1185	1.9	9.0905	1.9	8.9686	1.8	107.2
Finland	(FM)	7.2626	+0.0195	563 - 688	7.2770	7.2400	7.2582	0.7	7.2501	0.7	-	-	83.2
France	(FFr)	8.0148	+0.0217	117 - 179	8.0417	7.9925	8.0019	1.9	7.9769	1.9	7.8644	1.9	108.9
Germany	(DM)	2.3957	+0.0079	646 - 666	2.3722	2.3558	2.3609	2.4	2.3499	2.7	2.3045	2.6	[illegible]
Greece	(Dr)	373.993	+1.157	485 - 750	374.632	371.721	-	-	-	-	-	-	67.5
Ireland	(I£)	0.9760	+0.0003	753 - 766	0.9780	0.9744	0.9735	0.6	0.9743	0.7	0.9686	0.6	99.3
Italy	(L)	2391.64	+5.48	009 - 318	2399.19	2382.39	2398.19	-3.3	2409.34	-3.0	2442.59	-2.1	76.5
Luxembourg	(LFr)	48.6969	+0.1917	466 - 272	48.7660	48.4750	48.5619	2.8	48.3719	2.6	47.9719	1.6	108.5
Netherlands	(Fl)	2.6483	+0.0093	474 - 492	2.6536	2.6374	2.6418	3.0	2.6264	3.0	2.5718	2.9	106.7
Norway	(NKr)	10.1176	+0.0331	099 - [illegible]	10.1977	10.0790	10.1091	1.0	10.0921	1.0	10.0066	1.1	98.5
Portugal	(Es)	244.159	+0.697	034 - 284	244.741	242.868	244.584	-2.1	245.489	-2.2	-	-	94.3
Spain	(Pta)	199.599	[illegible]	[illegible] - 699	200.492	199.344	199.849	-1.6	200.364	-1.6	201.764	-1.1	80.3
Sweden	(SKr)	10.4065	+0.0202	966 - 186	10.4310	10.3642	10.4086	0.0	10.4097	0.0	10.4077	0.0	89.4
Switzerland	(SFr)	1.9518	+0.0144	506 - [illegible]	[illegible]	[illegible]	1.9468	3.1	1.938	3.2	1.8876	3.3	[illegible]
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	86.3
Ecu	-	1.2516	+0.0042	510 - 525	1.2546	1.2476	1.2505	1.2	1.2475	1.4	1.2342	[illegible]	-
SDR†	-	1.069600	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5396	+0.0008	391 - 400	1.5403	1.5391	-	-	-	-	-	-	-
Brazil	(R$)	1.5404	+0.0025	399 - 409	1.5465	1.5396	-	-	-	-	-	-	-
Canada	(C$)	2.1048	+0.0021	040 - 066	2.1141	2.1038	2.1041	0.4	2.1004	0.8	2.0924	0.6	84.5
Mexico	(New Peso)	11.5967	+0.0322	790 - 145	11.6339	11.5572	-	-	-	-	-	-	-
USA	($)	1.5417	+0.0008	414 - 420	1.5495	1.5412	1.5412	0.4	1.5404	0.4	1.5392	0.2	97.4
Pacific/Middle East/Africa													
Australia	(A$)	1.9478	-0.0123	462 - 494	1.9694	1.9462	1.9504	-1.6	1.9554	-1.6	1.9807	-1.7	94.0
Hong Kong	(HK$)	11.9332	+0.0092	304 - 359	11.9913	11.9297	11.9251	0.8	11.9135	0.7	11.8937	0.3	-
India	(Rs)	53.8512	+0.0124	324 - 700	54.0050	53.8020	-	-	-	-	-	-	-
Israel	(Shk)	5.0391	-0.0095	342 - 439	5.0566	5.0342	-	-	-	-	-	-	-
Japan	(Y)	168.122	-0.144	013 - 232	169.120	167.470	167.397	5.2	165.907	5.3	159.492	[illegible]	134.6
Malaysia	(M$)	3.8504	+0.0012	489 - 519	3.8891	3.8504	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3019	-0.0043	996 - 029	2.3126	2.3029	2.3068	-2.6	2.3157	-2.5	2.3498	-2.1	105.5
Philippines	(Peso)	40.3617	+0.0286	922 - 312	40.3123	40.2822	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7820	+0.0031	806 - 834	5.8109	5.7804	-	-	-	-	-	-	-
Singapore	(S$)	2.1723	+0.0008	711 - 734	2.1814	2.1711	-	-	-	-	-	-	-
South Africa	(R)	6.7260	+0.0197	244 - 316	6.7377	6.7076	-	-	-	-	-	-	-
South Korea	(Won)	1214.17	+1.56	385 - 448	1220.23	1213.85	-	-	-	-	-	-	-
Taiwan	(T$)	42.7467	+0.0853	307 - 627	42.9552	42.7106	-	-	-	-	-	-	-
Thailand	(Bt)	39.0975	+0.0218	822 - 128	39.2750	38.9980	-	-	-	-	-	-	-

† Rates for Jun 6. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index [illegible]. Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 7		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.7987	[illegible]	986 - 008	10.8100	10.7320	10.7792	2.2	10.7372	2.3	10.5587	2.3	104.7
Belgium	(BFr)	31.5800	+0.109	600 - 000	31.6000	31.3620	31.525	2.1	31.41	2.2	30.87	2.2	108.3
Denmark	(DKr)	5.9245	+0.0155	230 - 260	5.9295	5.8895	5.917	1.5	5.9	1.7	5.831	1.6	108.5
Finland	(FM)	4.7108	+0.0102	078 - 139	4.7156	4.6812	4.7043	1.7	4.6923	1.6	4.6456	1.4	82.4
France	(FFr)	5.1987	+0.0114	977 - 997	5.2070	5.1700	5.1917	1.6	5.1775	1.6	5.1097	1.7	108.4
Germany	(DM)	1.5345	+0.0044	342 - 347	1.5371	1.5248	1.532	2.0	1.5262	2.2	1.498	2.4	107.6
Greece	(Dr)	242.325	+0.825	270 - 380	242.650	240.830	244	-8.3	247.35	-8.3	261.325	-7.8	67.1
Ireland	(I£)	1.5798	[illegible]	[illegible] - 805	1.5875	1.5790	1.5804	-0.4	1.5813	-0.4	1.5728	-0.4	-
Italy	(L)	1551.30	+2.75	960 - 200	1553.49	1542.82	1556.05	-3.7	1564.2	-3.3	1586.95	-2.3	76.1
Luxembourg	(LFr)	31.5800	+0.108	600 - 000	31.6100	31.3620	31.527	2.0	31.4205	2.0	30.94	2.0	106.3
Netherlands	(Fl)	1.7176	+0.0051	175 - 180	1.7180	1.7069	1.7145	2.3	1.7073	2.4	1.6766	2.5	106.8
Norway	(NKr)	6.5626	+0.018	589 - 663	6.5750	6.5181	6.5598	0.5	6.5541	0.5	6.5176	0.7	97.6
Portugal	(Es)	158.370	+0.37	320 - 420	158.560	157.400	158.685	-2.4	159.275	-2.3	161.422	-1.9	94.3
Spain	(Pta)	129.460	+0.015	420 - 500	129.760	129.000	129.71	-2.3	130.14	-2.1	131.68	-1.7	79.8
Sweden	(SKr)	6.7519	+0.0097	470 - 567	6.7586	6.7126	6.763	-2.0	6.7804	-1.7	6.8224	-1.0	110.3
Switzerland	(SFr)	1.2660	+0.0087	655 - 665	1.2683	1.2555	1.2625	3.4	1.255	3.5	1.2215	3.5	110.8
UK	(£)	1.5417	+0.0008	414 - 420	1.5495	1.5412	1.5412	0.4	1.5404	0.4	1.5392	0.2	86.7
Ecu	-	1.2316	-0.0036	311 - 321	1.2385	1.2300	1.2324	-0.7	1.234	-0.8	1.2429	-0.9	-
SDR†	-	[illegible]	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-	995 - 997	[illegible]	[illegible]	-	-	-	-	-	-	-
Brazil	(R$)	0.9992	+0.0011	990 - 993	0.9993	0.9983	-	-	-	-	-	-	-
Canada	(C$)	1.3653	+0.0007	[illegible]	1.3660	1.3637	1.3651	0.1	1.3654	0.0	1.3682	-0.2	[illegible]
Mexico	(New Peso)	7.5220	+0.017	120 - [illegible]	7.5330	7.51200	7.6835	-25.8	7.8086	-18.4	9.532	-28.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.2
Pacific/Middle East/Africa													
Australia	(A$)	1.2634	-0.0085	[illegible]	1.2642	1.2626	1.2654	-1.9	1.2689	-1.7	1.2878	-1.9	94.5
Hong Kong	(HK$)	7.7403	[illegible]	400 - 405	7.7405	7.7379	7.741	-0.1	7.7428	-0.1	7.7698	-0.4	-
India	(Rs)	34.8000	-0.01	000 - 000	35.0000	34.6000	34.95	-5.2	35.255	-5.2	36.725	-5.5	-
Israel	(Shk)	3.2685	-0.0079	[illegible] - 710	3.2733	3.2616	-	-	-	-	-	-	-
Japan	(Y)	109.050	-0.15	000 - 100	109.380	108.470	108.605	4.9	107.705	4.9	103.985	4.7	134.7
Malaysia	(M$)	2.4975	-0.0005	970 - 980	2.4982	2.4958	2.4984	-0.4	2.5045	-1.1	2.528	-1.2	-
New Zealand	(NZ$)	1.4925	-0.0036	919 - 934	1.4935	1.4919	1.4958	-2.5	1.5014	-2.4	1.526	-2.2	-
Philippines	(Peso)	26.1800	+0.005	400 - 200	26.2200	26.1400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-	502 - 506	3.7506	3.7502	3.7508	-0.1	3.7515	-0.1	3.7549	-0.1	-
Singapore	(S$)	1.4090	-0.0002	[illegible] - 095	1.4095	1.4080	1.4055	3.0	1.3995	2.7	1.374	2.5	-
South Africa	(R)	4.3640	+0.0105	[illegible] - 655	4.3665	4.3370	4.4115	-13.1	4.5015	-12.6	4.839	-10.9	-
South Korea	(Won)	787.550	+0.6	500 - 600	788.200	786.400	-	-	-	-	-	-	-
Taiwan	(T$)	27.7270	+0.041	220 - 320	27.7400	27.6760	27.732	-0.2	27.737	-0.1	-	-	-
Thailand	(Bt)	25.3800	+0.001	[illegible]	25.3850	25.2560	25.4587	-4.7	25.6825	-4.8	26.545	-4.7	-

† SDR rate per $ for Jun 6 Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 6: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 7	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3¼	3¼	7.00	2.50	-
week ago	3¼	3¼	3¼	3¼	3¼	7.00	2.50	-
France	3¾	3¾	3¾	3¾	4¼	3.60	-	5.60
week ago	3¾	3¾	3¾	3¾	4¼	3.70	-	5.60
Germany	3¼	3¼	3¼	3¼	3¾	4.50	2.50	3.30
week ago	3¼	3¼	3¼	3¼	4	4.50	2.50	3.30
Ireland	5¼	5¼	5¼	5¼	5¾	-	-	6.25
week ago	5¼	5¼	5¼	5¼	5¾	-	-	6.25
Italy	9¼	9¼	8¾	8¾	8¾	-	9.00	9.35
week ago	9¼	9¼	8¾	8¾	8¾	-	9.00	9.25
Netherlands	2¾	2¾	2¾	2¾	3¼	-	3.00	3.30
week ago	2¾	2¾	2¾	2¾	2¾	-	3.00	3.30
Switzerland	2¼	2¼	2½	2¼	2¾	5.00	1.50	-
week ago	3¼	2¼	2¼	2¼	2¾	5.00	1.50	-
US	5¼	5¼	5¼	5¼	5¾	-	5.00	-
week ago	5¼	5¼	5¼	5¼	6	-	5.00	-
Japan	½	½	½	½	¾	-	0.50	-
week ago	½	½	½	½	¾	-	0.50	-
$ LIBOR FT London Interbank Fixing	-	5¼	5½	5¾	6¼	-	-	-
week ago	-	5¼	5½	5¾	6	-	-	-
US Dollar CDs	-	4.91	5.09	5.26	5.67	-	-	-
week ago	-	4.91	5.06	5.26	5.68	-	-	-
ECU Linked Ds	-	4¼	4¼	4¼	4¾	-	-	-
week ago	-	4¼	4¼	4¼	4¾	-	-	-
SDR Linked Ds	-	3¾	3¾	3¾	3¾	-	-	-
week ago	-	3¾	3¾	3¾	3¾	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 7	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3¼ - 3¼	3¼ - 3¼	3¼ - 3¼	3¼ - 3¼	3¼ - 3¼	3¼ - 3¼
Danish Krone	4 - 3¾	3¾ - 3¾	3¾ - 3¾	4 - 3¾	4¼ - 3¾	4¼ - 4¼
D-Mark	3¼ - 3¼	3¼ - 3¼	3¼ - 3¼	3¼ - 3¼	3¼ - 3¼	3¾ - 3¾
Dutch Guilder	2¾ - 2¾	2¾ - 2¾	2¾ - 2¾	2¾ - 2¾	2¾ - 2¾	3¼ - 3¼
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 7		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.76	16.46	4.859	2.005	4913	5.438	20.78	501.6	408.9	21.38	4.009	2.054	4.323	3.167	345.2	2.571
Denmark	(DKr)	53.31	10	8.776	2.590	1.069	2619	2.899	11.08	267.4	218.5	11.40	2.137	1.095	2.305	1.688	184.0	1.371
France	(FFr)	60.76	11.40	10	2.952	1.218	2984	3.304	12.63	304.7	249.0	12.99	2.436	1.248	2.626	1.924	209.7	1.562
Germany	(DM)	20.58	3.861	3.388	1	0.418	1011	1.119	4.277	103.2	84.36	4.400	[illegible]	0.423	0.890	0.652	71.05	0.529
Ireland	(I£)	49.89	9.359	8.212	[illegible]	1	2451	2.713	10.37	250.2	204.5	10.67	2.000	1.025	2.157	1.580	172.2	1.283
Italy	(L)	2.036	0.382	0.335	0.099	0.041	100.	0.111	0.423	10.21	8.344	0.435	0.082	[illegible]	0.088	0.064	7.026	0.052
Netherlands	(Fl)	18.39	3.449	3.027	0.894	0.369	903.3	1	3.822	92.22	75.38	3.931	0.737	0.378	0.795	0.582	63.48	0.473
Norway	(NKr)	48.11	9.026	7.920	2.338	0.964	2364	2.617	10	241.3	197.2	10.29	1.929	0.988	2.080	1.524	166.1	1.237
Portugal	(Es)	19.94	3.740	[illegible]	0.969	0.400	979.5	1.084	4.144	100.	81.74	4.263	0.799	0.410	0.862	0.631	68.84	0.513
Spain	(Pta)	24.39	4.576	4.016	1.185	0.489	1198	1.327	5.070	122.3	100.	5.215	0.978	0.501	1.055	0.773	84.22	0.627
Sweden	(SKr)	46.77	8.774	7.699	2.273	0.938	2298	2.544	9.721	234.6	191.7	10	1.876	0.961	2.022	[illegible]	161.5	1.203
Switzerland	(SFr)	24.94	4.679	4.106	1.212	0.500	1225	1.357	5.184	125.1	102.3	5.333	1	0.512	1.078	0.790	86.12	0.641
UK	(£)	[illegible]	9.134	8.015	2.366	0.976	[illegible]	2.648	[illegible]	244.2	199.6	10.41	1.952	1	2.105	1.542	168.1	1.252
Canada	(C$)	23.13	4.339	3.808	1.124	0.464	1136	1.258	4.808	116.0	94.82	4.946	0.927	0.475	1	0.733	79.86	0.595
US	($)	31.58	5.923	5.198	[illegible]	0.633	1551	1.717	6.563	158.4	129.4	6.751	1.266	0.649	1.365	1	109.0	0.812
Japan	(Y)	28.96	5.434	4.768	1.407	0.581	1423	1.575	6.020	145.3	118.7	6.193	1.161	0.595	1.252	0.917	100.	0.745
Ecu		38.89	7.296	6.402	1.890	0.780	[illegible]	2.115	8.083	195.0	159.4	8.316	1.559	0.799	[illegible]	1.232	134.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.6540	0.6512	-0.0028	0.6582	0.6506	18,158	66,874
Sep	0.6584	0.6547	-0.0028	0.6599	0.6542	1,927	12,896
Dec	-	0.6565	-0.0024	0.6620	0.6580	66	1,656

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.7962	0.7984	-0.0067	0.7973	0.7878	11,886	36,562
Sep	0.8012	0.7943	-0.0067	0.8036	0.7934	881	7,868
Dec	0.8026	0.8008	-0.0064	0.8026	0.8016	23	874

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.9168	0.9164	-0.0008	0.9228	0.9164	14,129	75,025
Sep	0.9305	0.9260	-0.0008	0.9336	0.9270	3,767	15,381
Dec	0.9440	0.9400	-	0.9440	0.9400	666	3,369

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	1.5428	1.5384	-0.0028	1.5496	1.5370	8,686	67,086
Sep	1.5460	1.5384	-0.0084	1.5490	1.5364	1,145	7,736
Dec	-	1.5384	[illegible]	1.5460	[illegible]	7	82

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.490	4.80	-	-	-	0.09	0.17
1.500	3.80	[illegible]	4.09	-	0.16	0.31
1.510	2.80	3.00	[illegible]	-	0.29	0.52
1.520	1.89	2.26	2.58	-	0.45	0.80
[illegible]	1.05	1.59	2.01	0.15	0.71	1.16

Previous day's vol., Calls 6,576 Puts 4,278 . Prev. day's open int., Calls 198,817 Puts 190,580

■ Pound in New York

Jun 7	— Close —	— Prev. close —
£ spot	1.5390	1.5435
1 mth	1.5384	1.5429
3 mth	1.5370	1.5421
1 yr	1.5358	1.5410

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in Today's edition.

UK INTEREST RATES

LONDON MONEY RATES

Jun 7	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5¾ - 3	5¾ - 5¾	5¾ - 5¾	5¾ - 5¾	5¾ - 5¾	6¼ - 6¼
Sterling CDs	-	-	5¾ - 5¾	5¾ - 5¾	5¾ - 5¾	6¼ - 6¼
Treasury Bills	-	-	5¾ - 5¾	5¾ - 5¾	-	-
Bank Bills	-	-	5¾ - 5¾	5¾ - 5¾	5¾ - 5¾	-
Local authority deps.	5¾ - 5¾	5¾ - 5¾	5¾ - 5¾	5¾ - 5¾	6 - 5¾	6¼ - 6¼
Discount Market deps	5¾ - 5¾	5¾ - 5¾	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Jun 6, 5.6301pc. ECGD fixed rate Stg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 25, 1996, Schemes II & III 7.38pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Jun 7	May 31		Jun 7	May 31
Bills on offer	£800m	£1000m	Top accepted rate	5.6554%	5.8859%
Total of applications	£2607m	£2522m	Ave. rate of discount	5.6301%	5.8344%
Total allocated	£800m	£800m	Average yield	5.7102%	5.9205%
Min. accepted bid	£98.590	£98.545	Offer at next tender	£800m	£800m
Allotment at min. level	6%	75%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday June 5, 1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,845,213,432	+304,822,795
Bankers deposits	2,018,260,126	+120,449,367
Reserve and other accounts	3,972,303,801	-438,950,751
	7,250,330,359	-13,678,596
Assets		
Government securities	2,237,266,900	+128,858,000
Advance and other accounts	1,931,751,808	+325,486,719
Premises, equipment and other secs	3,076,049,007	-463,283,524
Notes	5,165,030	-1,551,062
Coin	100,614	-35,725
	7,250,330,359	-13,678,596
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,244,834,970	-298,448,938
Notes in Banking Department	5,165,030	-1,551,062
	20,250,000,000	-300,000,000
Assets		
Other Government securities	14,541,129,883	-565,365,616
Other Securities	5,708,870,117	+265,365,616
	20,250,000,000	-300,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	6.00
Allied Trust Bank	5.75	Exeter Bank Limited	7.00	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	6.00	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Yorkshire Bank	5.75
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	5.75	C. Hoare & Co	5.75	● Members of London Investment Banking Association	
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75	* In administration	
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	6.00	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	6.00		
Credit Lyonnais	5.75	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	5.75		

FT GOLD MINES INDEX

	Jun 7	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (31)	2176.85	+13.2	55.34	100.00	1.41	-	2628.73	1722.85
■ Regional Indices								
Africa (13)	2947.97	+17.8	15.67	28.31	2.45	40.17	3553.86	2272.74
Australasia (6)	2577.83	+8.8	6.19	11.18	2.54	28.11	2927.34	2098.51
North America (12)	1803.22	+13.0	33.48	60.52	0.71	67.87	2186.39	1488.94

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap. (£m.)	1996 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
-	F.P.	[illegible]	99	99	Renaissance US G	99	-	-	-	-	-
-	F.P.	10.8	75	75	SEA Multimedia	75	-	-	-	-	-
-	F.P.	10.8	106	98	Schroder Venture	104	-	-	-	-	-
-	F.P.	-	97	91½	Taiwan Inv Tst C	91½	-½	-	-	-	-
-	F.P.	22.6	15	7¼	†Thomas Potts	12½	-	-	-	-	-
-	F.P.	2.99	56	48	†Tom Hoskins	55	-	-	-	-	-
84	F.P.	3.34	96	91	†Wiltecross	93	-	-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	Low	Stock	Closing price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45	Nil	12/6	30pm	26pm	Prosous Intl	26pm	
105	Nil	19/7	108pm	98pm	Sketchley	108pm	

pm premium.

UK GILTS PRICES

[illegible]

STOCK INDICES

[illegible]

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Allied Domecq	[illegible]	469xd	-3.1	Q29.5	1.1	Feb Jul	20.5	1059
Bulmer (HP)	[illegible]	577	-.5	12.3	2.6	Feb Sep	8.1	2005
Burn St Dist	[illegible]	109½	-1.8	5.9	0.9	May Nov	22.4	1818
Glenmorangie A		845	—	12.8	3.3	Jan Jul	11.12	3257
Grand Met	[illegible]	428½	-1.5	15.25	1.5	Apr Oct	28.12	2759
Guinness	[illegible]	447	-4.0	14.9	2.1	May Nov	1.4	2781
Highland	[illegible]	375	0.3	8.0	2.7	Jan Jun	7.5	2890
Kirin Y		773¼	-4.1	Q29%	4.2	Mar Sep	-	1119
Macallan-Glen	[illegible]	174	3.0	1.45	3.3	May Nov	15.4	3254
Matthew Clark	[illegible]	790	-1.4	22.8	0.2	Apr Oct	23.1	2163
Merrydown	[illegible]	125	0.8	2.0	-	Jan Oct	11.12	3392
Seagram S		$22½	2.0	Q60c	-	MrJnSpDe	3.93	-

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf		90½#	—	8%	-	Jan Dec	11.94	1757
Cater Allen	[illegible]	394	—	30.0	2.0	Jan Aug	11.12	2081
Close Bros	[illegible]	381	0.5	9.05	2.5	Apr Nov	11.3	2106
Gerrard & Nat	[illegible]	388	-.3	22.5	1.3	Jul Dec	13.11	2686
Hambros	[illegible]	233	-1.3	7.8	Φ	Aug Dec	27.11	2812
7½pc Cv Pf		110½	-3.1	7½%	-	Oct Apr	26.2	4588
King & Shaxson	[illegible]	171	—	9.0	1.4	Jan Jul	22.12	3069
Leopold J	[illegible]	428	—	10.75	1.6	Sep Jan	11.12	3080
Rea Brothers	[illegible]	58	—	1.0	2.0	May Sep	1.4	3785
Schroders	[illegible]	1340	-.7	16.0	4.5	May Oct	25.3	3939
N/V	[illegible]	1058	-1.4	16.0	4.5	May Oct	25.3	3941
Singer & Fried	[illegible]	107	0.5	4.0	3.0	Jan Nov	29.4	4028
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Australian Gold Fields (Extractive Inds), AIM Trust (Inv Trusts), Springwood (Leis & Htls), Maiden (Media), Cap & Reg Props 6¾% 2006/16 (Props), Just Group and Rafiee (AIM). Deletions: Hartons, Do 7% Prf, (Dists), Trafalgar Hse, Do Prf (Diversified Inds), Beta Global Emg Mkt Wts (Inv Trusts), Presidio Oil A (Oil Expln), Gartmore and Intl Inv Trust of Jersey (Other Fin).

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4 pm close June 7

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	18⅛	AAR	0.48	2.3	23	332	21¼	20½	21¼	-¼
46⅛	36⅛	AMP	1.00	2.5	20	5875	40⅝	40⅛	40½	-⅛
97½	68	AMR			23	5479	96	93¾	94⅝	-1½
50½	37⅜	ASA	1.80	4.2	28	1031	43¼	42¼	42½	-⅛
44¾	38⅛	AbbtL	0.96	2.2	19	6692	43¾	42½	43⅝	+⅛
17¼	13¼	Abitibi Pr x	0.40	3.0	6	280	13⅜	d13¼	13⅜	
38¼	27	ABM Ind	0.70	1.9	19	5	37⅛	36⅞	36⅞	-⅜
17⅞	13⅞	Acptncein			48	98	17¾	17½	17⅝	-⅛
50⅜	37¾	ACE Ltd	0.56	1.3	10	1347	44⅝	43⅝	44	-⅜
9⅞	9⅛	ACM Gvt In x	0.90	9.1	8	229	u9⅞	9¾	9⅞	+⅛
7⅛	6⅜	ACM GvOpp x	0.57	8.6		345	6⅝	d6⅝	6⅝	-⅛
7¼	6⅛	ACM Gvt Sp x	0.66	10.6		470	6¼	d6⅛	6¼	
9⅛	8¼	ACM Gvt Se x	0.90	10.6		649	8⅝	8⅜	8½	
9½	8¾	ACM Man x	0.90	10.0		177	9	8⅞	9	+⅛
30⅜	16½	AcmeCly	0.52	1.7	7	3587	29⅞	29¾	29⅞	+⅛
13⅞	6⅛	Acme Elect			61	632	11	10⅝	11	-¼
32½	27¾	Acordia x	0.80	2.5	19	14	32⅜	32⅛	32¼	-⅛
21⅞	12	Acuson			81	913	18⅛	17⅞	18	+½
19½	18⅜	Adams Expr	1.68	8.6	0	180	19⅜	18¾	19⅜	
21¼	16⅛	AdvMic			7	5217	17½	17	17⅜	+⅛
11⅛	8½	Advest Grp	0.16	1.5	7	82	10½	10¼	10½	-⅛
28⅛	9⅛	Advo Inc	0.10	0.9	69	233	10¾	10½	10⅝	-⅛
50⅞	41⅛	Aegon	1.19	2.5	14	147	48½	47¾	48	-⅜
6¾	3½	Aerflx			4	407	6¼	6	6⅛	-⅛
78¼	68⅞	AetnaL	2.76	3.8	18	10081	73	71¼	71⅞	-2⅛
33	28¼	Aflac	0.40	1.3	12	1780	30	29⅛	30	+⅛

Continued on next page

4 pm close June 7

NYSE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
Continued from previous page										
20¾	13⅛	SciAtl x	0.06	0.3	47	1195	18⅜	17⅞	18⅜	+⅛
21	17	Scotsman	0.10	0.5	12	92	20	19¾	20	-⅛
45¼	39⅛	Scripps	0.52	1.2	26	213	44⅝	44¼	44½	-⅜
18⅛	14½	ScudderNAsF	0.02	0.1		70	14⅞	14⅝	14¾	
12½	11	ScudderNEuF	0.16	1.3		254	12¼	12⅛	12¼	
20½	16	SeaCnB	0.70	3.6	2	15	19⅜	19¼	19⅜	-⅜
16	15	SeaCt.4625	1.46	9.7		8	15	d15	15	-⅛
67¾	44¾	Sgate			21	28211	55⅛	53⅞	54½	-2
39⅜	31¾	Seagrm	0.60	1.7	24	3410	35¼	34⅞	35⅛	
24⅝	17⅛	Seagull En			14	965	21⅞	21¼	21⅜	-½
38⅛	28	Sealed Air			28	300	35⅞	35	35⅞	+⅛
53¼	38¼	Searsk x	0.92	1.8	15	9127	52¼	50⅞	52¼	-⅛
22⅜	18¾	SeaCapSBI	1.24	5.6	22	901	u22⅜	22⅛	22¼	-⅛
13	11⅞	Seligm Sel	0.84	6.6		52	12⅞	12¾	12¾	-⅛
23¾	13⅝	Sensormat	0.22	1.2	16	5340	18⅝	18¼	18⅝	-¼
41	29½	SequaA	0.60	1.5	102	234	40	39	39⅛	-1
43⅛	39	SequaB	0.50	1.2	113	21	u43⅛	43	43⅛	
59½	39⅞	SvcCp	0.48	0.8	31	2308	59⅞	58⅛	58¼	+⅛
33½	29⅛	SvMstr	1.02	3.1	14	321	32⅞	32⅝	32⅞	
6	4½	ServMerch			11	1782	5¾	5⅝	5⅝	-⅛
48¼	28½	SGSThm			8	1401	41	39⅞	40⅛	-1⅛
15⅛	10⅝	Shaw Ind	0.30	2.2	40	1888	13⅝	13	13½	
12⅞	10⅝	Shelby WR	0.28	2.4	14	2100	11⅝	11⅝	11⅝	-⅛
87	76⅝	ShellTr	3.26	3.8	17	907	86¼	85⅞	86¼	
47	39	ShrW	0.70	1.6	19	1451	45⅛	43½	45⅛	+¼
13⅛	7⅞	Shoneys			13	517	12½	12⅛	12½	
33⅝	21	Showboat	0.10	0.3	43	2079	29⅞	29	29⅛	-½
35½	22¾	Sierra Pac	1.18	6.0	11	109	23⅞	23½	23½	-½
6	5⅛	SignalApp			1	4	5⅛	d5⅛	5⅛	-⅛
27¾	21⅞	Signet Bnk	0.80	3.1	15	5357	26⅛	25⅞	25⅞	-⅛
[illegible]										
63¾	49⅞	York Int	0.38	0.7	23	688	53¾	[illegible]	[illegible]	
3⅞	3	Zapata	0.14	3.9	9	394	3⅝	3½	3⅝	
25¾	6⅞	Zenith			7	19465	14⅛	12⅝	14⅛	+⅞
28	21¼	Zenith Nat	1.00	3.6	39	11	27¾	27½	27½	-⅛
7⅛	6½	Zweig Inc	0.72	10.3		192	7	6¾	7	+⅛
22⅞	16⅛	Zero	0.13	0.6	20	141	22¼	22	22	-⅛
22⅝	19⅝	Zurn Ind	0.40	2.0	16	410	20⅝	20⅜	20½	-⅛
11⅝	10⅞	Zweig Fund	1.12	10.1		874	11⅛	11	11⅛	
9	8⅛	Zweig Tot	0.84	9.9		1069	8⅝	d8⅝	8⅝	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. PE price-earnings ratio. ex-ex-dividend. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX PRICES

4 pm close June 7

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close June 7

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							

FT GUIDE TO THE WEEK

MONDAY 10

N Ireland peace talks

The "all-party" talks on Northern Ireland's future will begin in Belfast without Sinn Féin, the IRA's political wing, unless the IRA announces a last-minute ceasefire. This is in spite of Sinn Féin gaining 15 per cent of the votes in elections leading up to the talks. Participants will include the two main unionist parties, the moderate nationalist SDLP, the non-sectarian Alliance party and two groups with links to Protestant paramilitaries. At the insistence of the Irish government, the chairman will be George Mitchell, a close aide to US President Bill Clinton. The opening session calls for discussion of an agenda for broader political and constitutional issues before going into the question of arms decommissioning.

EU signs Slovenia agreement

The former Yugoslavia will be a main topic on the agenda of EU foreign ministers in Luxembourg. The EU will sign a long-awaited association agreement with Slovenia. Ministers will also hear from Jacques Santer, the Commission president, and Lamberto Dini, the Italian foreign minister, on their joint tour of Sarajevo, Zagreb, Belgrade and Skopje. Other important items include an exchange of views with Klaus Hänsch, the European parliament president, on the on-going intergovernmental conference to revise the Maastricht treaty. The rest of the meeting is likely to be disrupted by the UK's non-cooperation policy in protest over the ban on British beef exports.

US delegation to Ulster

A US investment mission to Northern Ireland visits Belfast, Newry and Dundalk, led by William Ginsberg, the acting assistant commerce secretary whose trip follows the peace-through-economic development efforts of Ron Brown, the late commerce secretary. The delegation will promote investment in information technologies and joint ventures between Irish companies and 11 US businesses on the mission (to June 13).

UK fights fish quotas

EU fisheries ministers have their first chance to discuss proposals from the Commission for cuts of up to 40 per cent in some fishing fleets between 1997 and 2002. The proposals, which are to protect dangerously over-exploited fishing stocks, have provoked fury in the UK and several other states. The UK is expected to raise the issue of quota-hoppers – foreign-owned and crewed boats which take advantage of another country's quota by registering there. The meeting will be unaffected by the UK's non-cooperation because decisions require only a qualified majority.

Menem at EU-Mercosur talks

Carlos Menem, the Argentine president, begins a three-day visit to Belgium and Luxembourg. This coincides with the first mixed EU-Mercosur commission meeting in Brussels, which will discuss a move towards free trade between Europe and the Mercosur regional block. Mercosur covers 200m consumers in Argentina, Brazil, Uruguay and Paraguay. Mr Menem, Mercosur's temporary president, will announce the creation of an EU-Mercosur business forum, through which 400 Latin American companies will develop closer links with European counterparts.

Russian soldiers in Chechnya put up a polling station sign for the Russian presidential elections in which they will be voting on Sunday

Tennis

Stella Artois grass-court tournament, Queen's Club, London (to June 16).

FT Surveys

International Capital Markets; Telecommunications in Business.

Public holidays

Argentina, Australia (except Western Australia), Colombia, French Guiana, Guyana, Jordan, Macao, Portugal, Thailand, Uganda, Venezuela.

TUESDAY 11

India vote of confidence

Debate opens in India's Lok Sabha parliament before a confidence motion on Wednesday which is expected to cement in power the United Front coalition government led by H.D. Deve Gowda. Mr Gowda's 13-party coalition is the second government to be formed after India's elections last month following the two-week tenure of the Bharatiya Janata Party regime. Mr Gowda's coalition has the backing of both the Congress party and India's main communist party. It is expected to pass the vote with ease.

Oliver North tries for Senate

Oliver North, the controversial operative in the Reagan White House, challenges John Warner, an incumbent senator for the state of Virginia, in the state's Republican primary. Colonel North's last senatorial launch in 1994 was defeated largely because of Mr Warner, a former Reagan administration budget director.

EU revises cross-border TV

EU culture ministers in Luxembourg are hopeful about reaching a common position on revision of the 1989 Television Without Frontiers directive, which regulates cross-border broadcasting and sets minimum quotas on EU broadcasters for EU-produced programming. The directive will extend the principles of the 1989 law to new types of broadcasting such as teleshopping, but will not – as mooted – extend into online services and the Internet. Four decisions requiring unanimity will be vetoed by the UK.

The Answer - by Waldheim

Kurt Waldheim, the former Austrian president and UN secretary general, is to present his latest autobiography in the Vienna parliament. *The Answer* is expected to be Mr Waldheim's response to allegations of ties with war-time Nazi crimes, which marred his 1986-1992 presidential term. Although Mr Waldheim was a junior intelligence officer with the German army, he has always denied any involvement in atrocities. In a previous autobiography, Mr Waldheim skipped over key episodes of his military career and misrepresented his war-time record.

Public holiday

Libya.

WEDNESDAY 12

Elections in Bangladesh

Bangladesh votes for the second time in four months to try to settle a bitter two-year struggle between the two main political parties. The vote follows an abortive poll boycotted by the country's three main opposition parties, led by the Awami League of Sheikh Hasina. Khaleda Zia, whose Bangladesh Nationalist Party swept to power unopposed in the flawed and violent poll, stood down in favour of an interim government created to administer the present election.

ILO attacks child labour

More than 100 labour ministers meet in Geneva to discuss how to eliminate child labour. Hosted by the International Labour Organisation, the meeting will focus on the most abusive forms of such labour, including dangerous work and child prostitution. An ILO study shows that more than 13 per cent of children aged between 10 and 14 are in employment worldwide, excluding girls in full-time domestic work. An ILO convention on child labour is to be adopted in 1999.

Clarke at Mansion House

Kenneth Clarke, the UK chancellor, delivers the annual Mansion House speech. Eddie George, the governor of the Bank of England, will also speak. Markets will be looking for signs as to whether Mr George was in full agreement with last week's 0.25 percentage point reduction in interest rates.

Saleroom

A furious scene of Arabs fighting on horseback is the highlight of Sotheby's sale of 19th-century European paintings in London. Painted in the 1850s by the French artist Théodore Chassériau, the work is expected to make up to £1.5m. Another potential £1m painting is "Playa de Valencia", by the Spanish artist Sorolla y Bastida. This shows fishermen and women on a beach.

FT Surveys

Britain; Construction Research.

Public holidays

Paraguay, Philippines, Russia.

THURSDAY 13

Dayton peace plan reviewed

Officials from the US, Europe, and Islamic countries, and humanitarian and financial organisations meet in Florence, Italy, for the mid-term review of the one-year Dayton peace plan (to June 14).

More than 80 institutions are to participate in order to certify that conditions have been met for Bosnia-wide elections in September (even though Bosnian Serb leader Radovan Karadzic – wanted on war crimes charges – remains in power). It will also evaluate the implementation of the military and civilian aspects of the Dayton accords.

Golf

US Open, Oaklands Hills, Michigan (to June 16).

Public holiday

Portugal (Lisbon only).

FRIDAY 14

Cuba plays regional host

About 100 parliamentarians from Latin America and the Caribbean meet in Cuba to debate topics such as national sovereignty and independence, regional integration and parliamentary democracy (to June 15).

The meeting is organised by Cuba's ruling Communist party, the National Assembly (parliament) and by the Sao Paulo Forum, a regional organisation of leftwing Latin American parties and movements. US legislation to discourage foreign investment in Cuba will be strongly condemned. Foreign dignitaries expected include Daniel Ortega, the former president of Nicaragua.

Motor racing

Le Mans 24-hour race.

Public holidays

Malawi, Solomon Islands.

SATURDAY 15

Queen's birthday honours

Queen Elizabeth II's biannual official birthday honours list of peers, knights and medal winners is announced. The honours will again follow procedures laid down by John Major, the prime minister. These allow people to write in and make nominations, setting out why they think somebody should be decorated.

Japan 'car killer' launched

Chrysler launches a 2,000cc sedan in Japan which the domestic car industry originally nicknamed the "Japan car killer". The monicker for the Neon was coined three years ago because of its aggressively low price. However, after cost-cutting by Japanese car makers, the Neon is unlikely to be such a big threat – and cheapness alone has been shown not to sell cars. Furthermore, sedans are suffering because of the Japanese love affair with recreational vehicles.

Public holiday

Hong Kong.

SUNDAY 16

Yeltsin poised in Russia poll

Russia's 105m voters go to the polls to elect a president in what could be the first free democratic elections for executive office in its 1,000 years as a sovereign nation. President Boris Yeltsin has climbed to the top in most opinion polls. However, his chief rival, Gennady Zyuganov, the Communist party candidate running on a fiercely nationalist ticket, may do better than the polls suggest. Other candidates, such as the ultra-nationalist Vladimir Zhirinovsky and the liberal Grigory Yavlinsky, could also prove strong. If nobody wins more than 50 per cent of the vote, the two front runners will compete in a run-off in July.

Sailing

Britain's Pete Goss is tipped to win the main mono-hull class in the single-handed transatlantic yacht race from Plymouth, in Britain, to Newport, US. Eighty yachts are taking part in the 3,000-mile race, which happens every four years.

Motor racing

World champion Michael Schumacher of Germany is starting to catch Britain's Damon Hill in this season's Formula 1 championship. They renew their struggle in the Canadian grand prix in Montreal.

Public holiday

South Africa.

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: German May unemployment figures will be watched today for any sign that the jobs market is improving. Most economists do expect to see a slightly better profile, reflecting their hopes that the worst of the recent downturn is over.

May UK producer prices data are expected to confirm the favourable cost background against which the chancellor cut rates last week. Input and output price growth is expected to edge down.

French consumer price inflation is likely to have stayed steady in May.

Tuesday: Manufacturing production in April in the UK is likely to remain sluggish, again highlighting the background to last week's rate cut.

Wednesday: UK May unemployment is likely to continue on a downward trend, while average earnings remain steady.

Thursday: Spanish May inflation should show a small rise in the annual rate. However, UK inflation data should be benign.

Friday: US May industrial production is likely to show steady, but unspectacular growth. However, Japanese data should point to a rebound.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Germany	May unemployment (west)†	-7,000	-17,000
June 10	Germany	May unemp'ment (pan-Germany)†	-15,000	-62,000
	Germany	March employment (west)†	-30,000	-97,000
	UK	April cyc indicators 2nd estimate	–	n/a
	UK	May producer price index input*	0.3%	0.8%
	UK	May producer price index input**	2.8%	3.0%
	UK	May producer price index output*	0.1%	0.3%
	UK	May producer price index output**	3.1%	3.2%
	UK	May Brit Retail Consort retail survey	-	0.4%
Tues	US	May producer price index	-	0.4%
June 11	US	Mitsubishi index	-	-2.2%
	US	April consumer credit	-	$6.3bn
	Japan	Apr mch'ne ord ex-elec pwr & ship*	3.7%	2.4%
	Japan	Apr mch'n ord ex-elec pwr & ship**	11%	-10.5%
	Japan	May Bank of Japan bank data	-	n/a
	UK	April construction orders	-	n/a
	UK	April industrial production*	0.1%	0.3%
	UK	April industrial production**	1.2%	0.6%
	UK	April manufacturing output*	0.0%	0.2%
	UK	April manufacturing output**	0.4%	0.2%
Wed	US	May Atlanta Fed index	-	-0.4%
June 12	US	May real earnings	-	-0.4%
	US	May consumer price index	0.3%	0.4%
	UK	May unemployment	-8,000	-3,200
	UK	April average earnings	3.75%	3.75%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Thur	US	May retail sales	-	-0.3%
June 13	US	May monthly M2	-$8.3bn	$3.8bn
	US	Weekly M2 w/e June 3	$8.3bn	-$3.2bn
	Japan	May overall wholesale price index*	-0.1%	0.1%
	Japan	May overall wholesale price index**	1.4%	1.8%
	Japan	May domestic wh'sale price index**	-	-1.0%
	UK	May retail price index*	0.4%	0.7%
	UK	May retail price index**	2.4%	2.4%
Fri	US	May industrial production	0.5%	0.9%
June 14	US	May capacity utilisation	83.2%	83.0%
	US	June Michigan sentiment	-	89.4%
	US	April business inventories	0.3%	-0.2%
	US	May bank credit	-	5.3%
	US	May C&I loans	-	9.5%
	Japan	April industrial production†	-	3.9%
	Japan	April shipments†	-	3.9%
During the week...				
	Japan	May trade bl (cst clrd) not ssnl adj	Y230bn	Y587bn
	Germany	May final cost of living (west)*	-	0.1%
	Germany	May final cost of living (west)**	-	1.2%
	Germany	May fl cost living (pan-Germany)*	-	0.1%
	Germany	May fl cost living (pan-Germany)**	-	1.5%
	Germany	April retail sales real**	1.0%	-3.0%
	Germany	May wholesale price index*	0.1%	0.2%

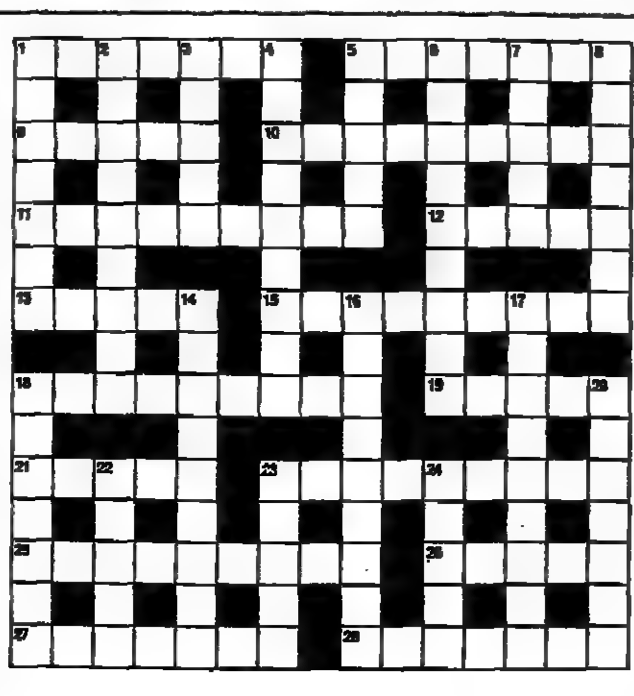
*month on month; **year on year; † seas/adj *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD
No.9,090 Set by ADAMANT

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday June 20, marked Monday Crossword 9,090 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 24. Please allow 28 days for delivery of prizes.

Name__________

Address__________



ACROSS

1 United used spoiling tactics and got one in (7)
5 Person in the dock caused leading counsel to get upset (7)
9 Imputation that the volunteers are in the wrong (5)
10 Run into stories of disagreements (9)
11 Making sure there's no change initially in foreign mix-up (9)
12 Condition of the jockey (5)
13 Tales that are spun out (5)
15 Graciously see about support for the worker (9)
18 Inclined to believe a possibly guilty journalist (9)
19 Generous proportion of this secular generation (5)
21 Bar new attempt in it (5)
23 Attest to having tried pace bowling (9)
25 But do firms at the centre go first for traitors? (9)
26 Day late navigating the river mouth (5)
27 Lumps used on trip round Leatherhead (7)
28 Longed to deny coming back to listen in (7)

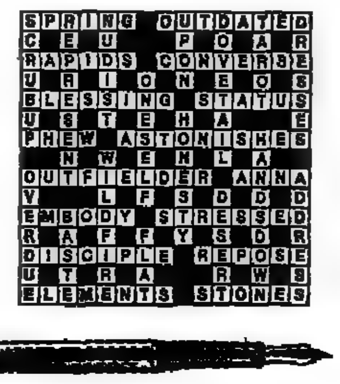
DOWN

1 The rest may scheme to get the upper hand (7)
2 Makes another statement on fears circulating about business (9)
3 Popular new queen is on target (5)
4 Shy girl with one crush on two fellows (9)
5 Getting on with a drink? Good! (5)
6 Noise of cold water flowing over an underground lake, initially (9)
7 Namely, an ancient grumbler (5)
8 Overthrow of the French being overweight (7)
14 Accepts one left will dither and be doubtful (9)
16 Infinitely less close at first and extremely lively (9)
17 Cover for sailor man at home (9)
18 Taken with the second glove (7)
20 The French dream turned to stone (7)
22 Blush at being cut to the heart? (5)
23 Sounds as if anger's what gives a best performance (5)
24 Not out to raise relief for democracy (5)

Winners 9,079

Mrs S. Farquhar, Woodley, Berkshire
C.J. Bailey, Coventry, W. Midlands
K.M. George, Shirley, Croydon
M. Jones, Twickenham, Middlesex
A.J. Layton, Stretton, Staffs
M. Wadely, Edenbridge, Kent

Solution 9,079



JOTTER PAD

Large corporations are losing their attraction for MBA graduates, says **Tony Jackson**

Downing a bitter potion

As the downsizing wave in America continues, big corporations sometimes give the appearance of turning their backs on the workforce. One small but important group of workers seems to be returning the compliment: the MBA graduates from America's business schools.

In 1990, 59 per cent of the MBA (master of business administration) class at Stanford went to work for companies with more than 5,000 employees. By 1995, the figure had dropped to 32 per cent. The number going to companies with less than 50 employees went up from 11 per cent to 14 per cent.

Alan Merten, dean of Cornell's business school, says: "The theory used to be that working for a small company gave you high risk and a high return, while you got low risk and low return at a big company. Now big companies are risky as well."

Samuel Culbert, professor at the Anderson business school at UCLA in Los Angeles, puts it more starkly. "Our MBA students have seen their parents' [employment] history, the betrayals and the broken promises. They're so afraid of the organisation that they devote enormous creativity to developing scenarios for entrepreneurship."

At Cornell, Merten says, the most popular optional class in the MBA course is that on entrepreneurship. Partly, this is because studying the small company gives a better grasp of how the whole business works. But there are also students who want to work for small companies on principle.

"Frankly, it's scaring the big companies," he says. "They're having to become much more aggressive on campus in their recruiting."

There is another aspect to the phenomenon: the sharp rise in MBA recruitment by management consultancies, which – the likes of Andersen and McKinsey apart – are mostly small organisations. Consultancy swallowed a third of the class of 1994 from both Stanford and the University of Pennsylvania's Wharton school. A decade previously at Wharton the figure was only about 15 per cent.

This is the result of rapid growth in the consulting industry and its consequent appetite for good graduates. But that growth is in turn intimately connected with the downsizing and re-engineering movement. For a bright MBA, there is obvious appeal in wielding the axe rather than being its target.

When it comes to hiring, not all big companies seem to be equal. The biggest single hirer at Cornell this year, Merten says, is Hewlett-Packard. "That's a classic example of a big company operating as a group of small companies," he says. "Others try to present themselves that way."

Eugene Skogg, head of recruiting at General Electric, agrees. "Big companies do have to present themselves as smaller entities," he says. "All our market research has shown that the more specific you can make the job and its opportunities, the more the appeal."

According to Skogg, GE has encountered no difficulties. The company has 12 operating divisions. Of those, the main hirer of MBAs is GE Capital, which alone comprises 25 different subsidiaries. "While we always show our links to the bigger company," Skogg says, "our strategy is to showcase the individual businesses."

If a classic conglomerate such as GE can pull this trick off, other big companies may find the going harder. The implications for corporate America are thought-provoking.

As Merten observes, graduates who succeed with small companies may be lost to the big corporations for good. "In a small company, you work across a broad range of disciplines. It will be harder to attract successful people to the narrower work of the big company."

If so, downsizing may turn out to be not just a euphemism, but a literal truth: the fragmentation of American business into smaller entities. In terms of jobs and economic performance, that might, in the long run, be no bad thing.

NEWS FROM

CAMPUS

Goodbye to the case study and simulation

Academics at Hec school of management in Paris have developed a method of teaching which they say improves on the traditional case study or simulation.

Students on the bilingual MBA course (French/English) are given data on the development of an actual company – Ferrovie dello Stato (FS), the Italian national railways – over five years, together with information on transport generally in the region. They are then given four potential scenarios and have to formulate strategies based on the information.

The three-and-a-half-day study ends with each group presenting their solutions to the chief executive of FS.

Hec: France, 1 39 67 70 00

Management study in the heart of Shanghai

Managers involved in business in China and Chinese managers alike are the target group of a two-week management development course which will be held in Shanghai in October.

The course will be hosted by the China Europe International business school and run as a joint venture between the Chinese school, the university of Michigan business school and Iese, the international graduate school of management at the university of Navarra, in Barcelona.

The course will examine issues such as the Chinese economy and law as well as general management issues.

Michigan: US, 313 763 9467

What women want in the business world

More than 200 American businesswomen – some company owners, others working in the public sector – have devised an economic action plan reflecting the priorities of women in business.

The plan was initiated at a conference on Women and Entrepreneurship, held at the Kellogg graduate school of management at Northwestern university and co-hosted by the National Women's Business Council, which is making the recommendations publicly available.

Top of the list of priorities is financing, followed by education and training.

Kellogg: US, 847 869 7983

Group of four chosen for training scheme

Four UK organisations have been selected to develop a continuing professional development scheme for managers in all areas of business.

The model, which should be fully developed by next summer, is intended to provide a relevant way for managers to develop their skills in line with both their personal objectives and the goals of their organisation.

The partners selected by the Management Charter Initiative for the government-funded scheme are the Association of Accounting Technicians, the Engineering Council, the Institute of Administrative Management and the Royal Institute of British Architects.

MCI: UK, (0)171 872 9000

● The latest book focusing on lifelong learning has been published by Kogan Page, in London. *Lifelong Learning* is co-authored by Norman Longworth, vice-president of the World Initiative on Lifelong Learning and Keith Davies, president of the European Lifelong Learning Initiative.

Kogan Page: UK, (0)171 278 0433

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Bit backward in looking forward

With a sporting history so rich and widely admired, it is tempting to live in the past, says Keith Wheatley. But Britain should steel itself against nostalgia

What a week for sporting nostalgia. In Dublin, Ohio, that charming dinosaur Tom Watson wins his first tour event for nine years and throws golf's vast heritage industry into overdrive. Euro 96 kicks off in England and has been treated, so far, mainly as an opportunity for UK writers and broadcasters to revisit England's triumph in the 1966 soccer World Cup.

Memories are as vital a part of sport's complex menu as adrenalin or despair. But for Britain, bygone games make a deadly cocktail. There is nothing wrong with a taste for liquor or a love of fast cars, but those with a passion for both seldom achieve much except an early grave.

In Britain, a thirst for the past is apparent everywhere. When it comes to the preservation of old building and other bits of heritage, the National Trust, probably Britain's most successful non-commercial organisation, is the envy of the world. Our children might be unable to do simple maths, our industrial trainees unable to tell software from semaphore, but our country houses are impeccable beneath their olive green paint, curated by middle-class people who would be far better employed as voluntary teachers than sitting guarding old drawing-rooms and selling tea tickets.

To a certain extent, the nostalgia kick can be seen as a return to quality. There are far more interviews with Bobby Charlton in the sports pages than with Paul Gascoigne, and any football writer will tell you why. The most widely shown television advertisement connected with Euro 96 features George Best, a genius who hasn't kicked a football for 20 years. With a sporting past so rich, interesting and widely admired, it is far too tempting to look backwards.

For a country infatuated with its past, suspiciously unwilling to imagine a changed and better future, good ol' Tom proved as comforting as Ovaltine at bedtime

That was why my blood ran cold when Watson sunk his putt on the 18th green last Sunday to win the Memorial Trophy.

It turned to ice when Jack Nicklaus said afterwards: "It was the most thrilling win of any I've seen in the past 10 years. It means an awful lot for the game of golf."

Really? I can't help thinking that over the next decade Ernie Els, Colin Montgomerie and the giant Scot Gordon Sherry are going to excite the contemporary golf fan far more than tales of Tom Watson.

I remember vividly the Saturday night at the 1994 British Open at Turnberry when Watson, who had shot a 65 the previous day, was suddenly in contention for the title. The British press couldn't have been more excited if they had found the Princess of Wales snuggling up to Nick Faldo. The reason was that Watson, a closet Scot if ever America's mid-west produced one – all freckles and carroty hair – began to chant his siren song about the timeless verities of British golf.

The reptiles behaved like small children when the funniest uncle tells them they're cute. Gosh, don't we want Tom to love us and our funny seaside golf links. For a country already perilously infatuated with its past, suspiciously unwilling to imagine a changed and better future, good ol' Tom proved as comforting as Ovaltine at bedtime.

"I'm gonna bring my boy over and teach him to play golf the way it started out," said Tom "Huck" Watson, adding that he'd just read three chapters of a homage to Harry Vardon, the guru of pre-war golf. There was not a throat without a lump in the packed press conference. When Tom delivered his familiar opinion that Britain was probably the last civilised country, the seduction was complete.

British self-esteem soared. Britain had scarcely a golfer worth a damn under 30, but this charismatic and courteous Yank loved us. Age is part of Watson's appeal. For every middle-aged British golf fan with a mildewed bag and a flat refusal ever to take a lesson, Watson is proof that life begins at 46. When he won his first British Open at Carnoustie, Rhodesia was still part of the empire and the Austin Maxi was a hot hatchback.

Happily, we believe that Tom is secretly one of us, that he would be happier living in the land of Marks and Spencer pullovers and replays of Bobby Charlton's goals. What rubbish. Watson is smarter than his audience.

"It's a strain playing away from home. Home is where you take deep slow breaths. On tour you're always panting," said Watson, who lives contentedly for 95 per cent of the year in his native Kansas rather than at the Scottish seaside.

As filtered by a British audience that yearns for a golden past rather than an uncertain future, Watson's message is as insidious a narcotic as any substance sold on a street corner. Buy a tweed jacket, wear a collar and tie at dinner, play golf at the windy seaside with Harry Vardon in your bag and be gap-toothed polite to old ladies and British journos.

To believe everything that Watson says is a sure way to guarantee that golf in Britain fails to recover its momentum among the young – to ensure that the boom years of Faldo, Lyle and Woosnam become a freak upward blip on a steady graph of decline.

Meanwhile, young Kiwis, Aussies and Swedes – with no golden past to cling to – are all over golf's leaderboards like a rash. But there is no future in sending for Dr Watson – despite his announcement that his sights are set on this week's US Open.

Tom Watson displays his winning trophy after thrilling the nostalgia junkies in the Memorial Tournament last week in Ohio Allsport

Lost in the muddle of a jumble sale

The Royal Academy's summer exhibition lacks clarity and needs completely re-thinking to reveal the best architectural works, says Colin Amery

Every year there is this strange opportunity to look at a shop window of the visual arts in Britain: the Royal Academy's summer exhibition. At the heart of all the detritus is the architecture room, where the architect-academicians have a chance to show their wares. There are 22 architects associated with the RA, including a clutch of foreign notables who have honorary status.

Inevitably in an institution that is not about change, the work on show is going to represent the work of an establishment. It could be argued that the whole exercise is pretty pointless and that the result of a lot of cronies promoting each other can only be a kind of car-boot sale of miscellaneous designs.

However, there is more to it than that. More people visit the RA than any other art exhibition in the year, and it is the only regular review of the state of architecture that the public can see with any ease. I observed on the opening day that just as many visitors spend as long in the architecture room as they do looking at pictures and sculpture. The only difference is that they are even more baffled in the architecture room. This is not so much to do with the eclectic nature of the works on show as with the absurdly old fashioned and cluttered nature of the display.

I understand that the president of the RA, Sir Philip Dowson, is an architect, but he seems reluctant to take a grip on the RA's promotion of architecture to the public. I suppose the artists are fighting the architects for every inch of wall space but surely, Sir Philip, it is time to take a stand. One measly room – which this year is overcrowded to the point of absurdity – is a joke.

The public are highly sophisticated and used to brilliant and scholarly exhibitions, like the incomparable pair of exhibitions about the work of Degas currently at London's National Gallery. This gallery never patronises its public. It never gives them anything but the very best. In recent years, every visit to its premises has been a powerful experience.

When it comes to architecture, the Royal Institute of British Architects' recent show of the work of Mario Bellini showed how powerfully contemporary architecture can be conveyed. Or take a look at the City of Glasgow's current show on Charles Rennie Mackintosh, which is of the highest quality and is a sell-out.

Selected works should be beautifully designed

The tragedy of the jumble sale approach to selection and display is that the good work is lost in the muddle. This year the most interesting and, architecturally, the most powerful exhibit at the RA is Sir Norman Foster's scheme for the transformation of the British Museum. It is breathtakingly wonderful. The models at the RA show it in all its splendour, the glass net thrown over the heart of the museum sheltering all the new space that will be released by the removal of the British Library to St Pancras.

It is not just elegant and ingenious but it is about the way great architecture can transform lives. I just pray that the British Museum will not compromise on this scheme.

There must be no cost-cutting economies, because this is a cultural opportunity of the first rank which makes the tragi-comedy being acted out at the Victoria and Albert Museum over its proposed new deconstructionist extension look absurd.

The kind of clarity that Sir Norman Foster brings to the British Museum is exactly what is needed at the RA. Its summer exhibition needs completely re-thinking, so that the architectural element is treated separately as a summer review of the architectural scene. First of all, Sir Norman Foster should be offered a few of the air-conditioned galleries in which to design the academy's architectural display. In themselves, the selected works should be beautifully designed and captioned.

For example, this year's room inevitably has a lot of lottery and millennium projects, not least the big wheel for London sponsored by British Airways and the nonsensical scheme by Sir Richard Rogers which puts most of the concrete horrors of the South Bank under a glass roof to protect them for ever. What a chance to examine publicly the proposed millennium projects for the capital.

The tragedy of the RA is that it does not *appear* to be remotely concerned with quality, taste or discrimination. This cannot be true, because many of our best architects are members. They should complain vigorously that they are being ill-served. How much longer can this annual mess be allowed to continue. It insults great talents and the public at the same time: quite an achievement.

NY learns there's more to books

Public libraries are undergoing a digital transformation, says Victoria Griffith

Prototype of the digital age: New York's Science, Industry and Business library has attracted visitors from all over the world

A visit to the new Science, Industry and Business Library in Manhattan, admirers say, is a step into the library of the future.

Touch-screen kiosks have replaced the traditional information desk at the entrance to the building, which used to house the turn-of-the-century B Altman department store on the corner of Madison Avenue and 34th Street. In the reading room, dozens of people are plugged into the Internet; others are using CD-Roms. On the lower floor, an instructor teaches a packed class how to navigate in cyberspace. Seventy computers in the electronic information centre pump out data on everything from US exports of dolls – "with or without clothes" – to a demographic profile of Shanghai.

According to the architects, Gwathmey Siegel & Associates of New York: "The newly renovated interior reinforces SIBL's image as a 'library without walls', a transparent membrane through which information and resources flow freely between the library, international business and research communities, and the public."

In fact, many see the new facility as the library prototype of the digital age. Since it opened last month, SIBL, a branch of the New York public library, one of the largest in the world, has received visiting librarians from nearly 30 countries.

"The French have spent $1.6bn on a new library and the British more than $500m, but none of them offer the Internet access people can get here," says Paul LeClerc, president of the New York public library.

Public libraries are undergoing a transformation. Visions of the future range from complete extinction of today's libraries to super-libraries serving global citizens.

In an effort to keep up with the times, the world's largest libraries are rushing to make at least some of their material available online. Dreamers hope that a researcher in Saudi Arabia, say, may soon be able to enter the New York public library in cyberspace and download a volume.

"People ask if there will still be the need for a physical facility if everyone can plug into a virtual library," says Betty Turock, president of the American Library Association.

SIBL is one of the most advanced public libraries to open in recent years, and its high-tech systems are attracting plenty of attention. Yet what may be most instructive is what it retains in terms of traditional – physical – library facilities as what it eliminates.

Financed by corporate and private donations as well as state and local funds, SIBL is not an ephemeral cyberconstruction but a solid building. Even its collection of books is far from virtual, occupying five floors.

Indeed, LeClerc believes that the concept of a truly virtual library – one with no physical existence – will remain a near-fantasy for some time. Publishing is an industry interested in making profits, he says. "Access for all would create a problem because if everyone could [download] a book for free, why buy it? Of course, you could institute a fee system to compensate writers, but that would defeat the purpose of a public library – to provide access to information free of charge."

Despite cyberspace, physical copies of books and periodicals still serve a purpose. Although much of its information is available electronically, the New York public library system estimates that two-thirds of SIBL users at any moment are searching for original hard copies of texts.

"There are still things that are very time-consuming to transfer to computers, such as photographs and illustrations," says Bill Kenny, a spokesperson for the library.

Cost is also a concern for public libraries hoping to go digital. While many libraries around the world are making some of their material available on the Internet, complete transition would entail massive expense.

"Who's going to pay for us to transfer the 52m items we have at the New York public library to computers?" LeClerc asks. "That would cost hundreds of millions of dollars, and you have to ask what the benefit to US taxpayers is that someone in Buenos Aires can take out a New York city library book on the Net."

The people who created SIBL pondered long and hard whether to provide an e-mail service. In the end, they decided not to.

"It would have been unworkable," says Kenny. "People would have been in here all day sending and receiving messages, and we would have been overwhelmed. Anyway, it's not really the point of a library to provide telecommunications services." However, the library helps users set up their own home pages on the Net.

Despite the barriers to virtuality, the digital revolution is gradually changing traditional libraries into multimedia operations. Readers must still visit SIBL in person to take out a book. But the library provides 24-hour online access to what used to be known as its card catalogues. And it is busily scanning in some material to offer over the Internet. In turn, the retrieval of statistics has been greatly simplified. No one has to struggle laboriously with monstrous volumes any more. Instead, a simple computer search puts statistics instantly on-screen.

To improve its access to cyberspace, the library is phasing in plenty of equipment so that users can tap into the Internet.

"I'm here because I want to get on the Internet," said Daniel Mironchuk, a New York consultant doing research at the library. "First they give you a free class, and then they let you plug into it for nothing. Where else can you get that?" Another user said he liked to use the Internet at the library because it afforded him virtual anonymity.

SIBL doesn't look or feel like a traditional library.

"Flexibility was a key part of the design because information technology can be expected to change dramatically over the next few decades," says architect Charles Gwathmey. "We put in plenty of room for new conduits so you don't have to redo the design every time you want to make some changes."

That SIBL will change – and change again – seems inevitable. For now, it looks impressive. Yet cyberspace may turn public libraries into dinosaurs – or even stranger creatures. The future of the library of the future is impossible to foretell.

Tim Jackson

Net censorship made easy and effective

One of the most puzzling aspects of the public debate on Internet censorship is that people apply standards to the electronic word that are different from those they apply to the printed word. I used to think this was mistaken. Why should it be legal to look at a picture in a magazine in a sex shop but not on a computer screen? Why should a comment that is libellous in a newspaper be permissible in an Internet discussion group? Why, in short, does the Internet require special treatment, rather than regulation by existing laws on child pornography, theft or incitement to violence and racial hatred?

This argument, however, neglects a key feature of electronic communication. Obtaining information from the Internet is much quicker, cheaper and more anonymous than obtaining it any other way. This is why people who would not wish their friends to catch them leafing through magazines in a sex shop will download dirty pictures on to their PCs. And this is why pornography on the Internet poses more of a threat to children than pornography in magazines, books or films.

The proponents of Internet censorship have used this argument to justify sweeping controls over the entire medium. From the US to China, from Germany to Singapore, governments everywhere have either already started to institute controls or are contemplating doing so. Yet a simple technical solution to the problem of protecting children from Internet pornography is now available.

To understand it, start by considering the range of software packages already available, under names such as SurfWatch or NetNanny, that block access to unsuitable material. These packages are an inadequate solution. They are separate, stand-alone pieces of software that Internet users need to search out and find for themselves. Worse, the selection lists of each package reflect a view of the world that will not be shared by all parents, let alone all governments.

Last year, a consortium of Internet and software companies, together with researchers from the Massachusetts Institute of Technology and the World Wide Web Consortium, began developing a technology known as Pics – Platform for Internet Content Selection – that allows the browser program itself to limit access to the Web. Sites are rated on different criteria, including sex, violence and bad language, allowing a parent to decide which ratings are suitable for which children. The browser program can then automatically limit access for each child.

That leaves unanswered, though, the question of who shall decide the ratings for Web sites. There are numerous candidates for the censor's job: site owners, Internet service providers, parents and third parties. Wisely, the creators of Pics are to let the market decide. Rather than holding the site ratings internally, their standard provides that the browser holds just an Internet address pointing to a computer somewhere else that holds a ratings list. This means that any person or organisation in the world can set up a ratings service, and computer owners can pick any rating service for their own use.

Once the computer is set to accept the advice of a given ratings service, the browser will ask that service for permission each time it is asked to download a Web page. So if the parent trusts Netcom, then it will be Netcom's list that controls which sites may be seen. If the parent trusts site owners, the browser can accept each site's self-rating. If the parent belongs to an Internet-aware church, then the church's nanny-in-chief can decide. And if the parent believes children should make their own way, the browser can be set to allow them to see whatever they want.

So far, only one browser is available that operates the Pics system: Microsoft's new beta version of Explorer. There are also only a handful of independent ratings services, and a small percentage of Web sites that have gone to the trouble of self-rating. But by the end of this year, Pics will probably have become a standard across millions of sites and tens of millions of browsers.

One promising sign is that Jim Miller, a MIT specialist working on the project, has found equal enthusiasm for Pics at *Playboy* and at the Christian Coalition. But Pics also has other applications. Businesses can use the system to prevent their employees from using the Web to check the weather, gamble in lotteries or visit museums' Web sites on company time. Copyright agencies can use it to keep a blacklist of sites where stolen software is kept, so that people who download such software would have to explain to a court why they had deliberately set their browser to allow the receipt of copyrighted material.

And the system can be used to protect privacy: companies can be asked to say what information they keep on visitors to their Web sites, so that casual surfers who do not wish to receive unsolicited e-mail from businesses can avoid the sites where such monitoring takes place.

One final application is perhaps the most interesting and controversial. A national government – say Iran's, or China's – could set up its own list of forbidden sites, and make it illegal to distribute or own a browser on its territory that ignored the list. This could prove the most effective form of Internet censorship yet devised.

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Information battle enters a new dimension

Ray Snoddy on plans to harness satellites' vast data-handling power to deliver interactive services

High-power television satellites are promising to transform the information battle in the US with the launch of interactive services to the homes of viewers on the back of 175 channels of television.

DirecTV, whose satellite television system of the same name was launched two years ago by Hughes Communications and broadcasts to the entire American continent from three high-power satellites, is planning to broadcast electronic multimedia magazines and the World Wide Web from next year.

The DirecTV system has been the fastest moving consumer electronics product in US history, and already has more than 1.5m subscribers. The company forecasts the number will have risen to 2.5m-3m by the end of this year.

Eddie Hartenstein, president of DirecTV, plans to go further by using the data-handling power of the satellites to deliver vast amounts of information to subscribers' PCs.

DirecTV is already in discussion with major magazine publishers such as Time Warner about the development of electronic magazines, complete with moving video, which could be broadcast to anyone with the 18-inch DirecTV satellite receiving system. The possibilities range from electronic forms of *Sports Illustrated* magazine to *National Geographic* or *Fortune* magazine for $4.95 a month. Subscribers with the receiving equipment would be able to take one feed for their television set and another, including data, for their computer screen.

Market research by DirecTV suggests there is a considerable appetite among its subscribers not just for data, but for the ability to pull up moving pictures, and sport in particular, on computer screens. Sports fans would welcome the ability to keep in touch with a ball game while working on other things through a small television picture in the corner of their screen. A Pentium standard multimedia computer would be needed for such services.

Hartenstein is also looking at ways of making the World Wide Web more easily and quickly available. The top 100 Web sites, many only updated weekly, account for a disproportionate amount of Internet traffic.

DirecTV is planning to broadcast the top 100 sites on a daily basis to PCs. The information can then be interrogated instantly by the user.

"You have the impression of real-time interactivity," says Hartenstein, who adds that the Web plan is just one of the ways in which DirecTV intends "to stay a couple of steps ahead".

DirecTV says that its satellites could be used to squirt the entire text of a newspaper such as the Financial Times to subscribers' PCs in four to five seconds.

Interest is growing in harnessing the huge information-carrying power of satellites to deliver interactive services, and not just in the US.

SES, the Luxembourg satellite company, announced last Friday that it would be offering business-to-business data services from its latest generation of satellites from 1998. And British Sky Broadcasting hopes to use interactive services provided by companies such as BT, Barclays Bank and Matsushita to bring down the cost of the decoders needed for the launch of several hundred channels of digital television in the UK.

BSkyB, which plans to launch a 200-channel service by the end of next year and move quickly to up to 500 channels, hopes the price of the box can be reduced to around £200.

The cost of the DirecTV system initially started at $700 although the full cost, including installation, was closer to $1,000. But in the past few weeks Circuit City, one of the large electronic chains, has been offering DirecTV receivers for $399.

"We are on the road to $299 next year and at that price all market research says it becomes a mass consumer product," says Hartenstein.

The DirecTV service, which offers most of the channels available to US cable subscribers, devotes 55 channels to the latest hit movies, and hundreds of "out of town" basketball, baseball and American football games.

Hughes is planning similar systems in Latin America and has been looking at the European market for some time. DirecTV leads the market in US satellite TV systems and in addition to Hubbard Broadcasting, which uses the Hughes satellite system, more competitors are entering the market. Primestar, a consortium of top cable companies, including Telecommunications Inc of Denver, already has more than 1.1m subscribers, mainly in rural areas where there is no cable. Last April, the new service Echostar launched with more than 100 channels and already has in excess of 30,000 subscribers.

Rupert Murdoch plans to launch an MCI/Fox service in 1998 with up to 200 channels. But by then Eddie Hartenstein hopes that interactive data service will have helped to reinforce DirecTV's market leadership.

Cyber sightings

● The highly respected Christian Science Monitor newspaper has set up an excellent site (*www.csmonitor.com*) building on the success of its initial experiments. This user-friendly site really has got it all together, audio tie-ins, reader forum and a magazine style "cybercoverage" section, as well as the sort of high-quality content you'd expect from the Monitor.

● Another established journal extending its online presence is *Newsweek*, which launches a completely redesigned service this week on America Online (keyword: Newsweek) after an 18-month run on the rival Prodigy network. *Newsweek's* political coverage is already available on the Net at *www.politicsnow.com*.

Five advertisers initially signed up for Newsweek Interactive are Chrysler-Plymouth, Federal Express, Honda, Lexus and Lincoln-Mercury. *Newsweek* says it is pitching its ad rates from an "affordable" $5,000 a month, with a five-screen ad selling for $15,000 a month.

● In the UK, Kensington Publications' *World Statesman*, the politics and current affairs magazine (*www.kenpubs.co.uk/worldstatesman*), is a nice, simple site: easy to get around and with much promise.

● If you have ever wondered about the murky business of disputed domain names, the story of a small Florida company called Merritt Island Technologies and its battle with the Massachusetts Institute of Technology makes interesting reading, particularly the e-mail from the Domain Name Registrar, setting out the tortuous legal structure for registering a domain.

Details of the case can be found at *http://spacecon.ids.net/public/mit.htm*

● *Advertising Age* magazine's site (*www.AdAge.com*) will have complete coverage of the International Advertising Association's Congress, which begins today.

● Talking of advertising, CyberValley (*www.Cyber-Valley.com*) is a merchandising mall aimed at high-profile, upper-end products such as luxury cars, yachts, homes, travel and upscale gifts. It is still under construction and has a pretty bare-bones approach, but says it intends to "bring much-needed standards of refinement and customer attention to the Web". Its Genuine Affections section, is, of course, a "refined" singles contact forum.

● The United Nations' World Food Programme recently launched a site (*www.unicc.org/wfp*) to distribute news and information about the agency's worldwide relief activities. It has been designed to give access to the UN's databank of information about food aid resources, statistics and response plans for when disasters occur.

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Financial Times on the World Wide Web
www.ft.com
or
www.usa.ft.com
Updated daily

Travel News - Roger Bray

Romania's crime beat

Bogus policemen are on the crime beat in Romania. With petty street thieves such as pickpockets and bag snatchers rampant, especially in Bucharest, they have been robbing visitors while pretending to check foreign currency and passports.

Travellers are advised not to produce money, but to ask to be taken to the nearest police station. It may not work, but it's worth a try.

A flying football fest

Travellers reluctantly abandoning their TV sets during Euro 96 are offered some slight compensation by British Airways.

The airline is screening news, results and highlights from Euro 96. However, it promises to give plenty of warning before the action from matches is shown on bulkhead screens, so if you're getting someone at home to video the action and are desperate to avoid hearing the score, you had better get out your earplugs and eyeshades.

The Euro-plastic age

Credit cards remain relatively unwelcome in Germany, a survey by *Which?*, the UK Consumers Association magazine shows. MasterCard and/or Visa are accepted in Germany at just over 510,000 outlets, *Which?* discovered. In contrast, the total number of outlets accepting the same two cards in France is almost 1.2m.

Spain has moved rapidly into the plastic age, with a total of more than 1.1m such outlets. In Italy, however, where plastic is still refused at many petrol stations, the two credit cards are accepted by only 624,000 outlets in total.

Further smoking bans

The latest onslaught against in-flight smoking comes from Lufthansa, the German airline, which has imposed a ban aboard all its flights to the UK and Ireland.

Frank Zahle, the airline's regional marketing manager, says that over the past two years there has been a steady increase in complaints from passengers about smoking, particularly on relatively short journeys. Lufthansa already forbids it on German domestic services, and some international services.

Fares to Canada fall

The cost of business travel to Canada has taken a summer plunge. Until September 2 Air Canada is cutting the cost of Executive First tickets from the UK to Calgary, Edmonton and Vancouver to £1,099. That is a little over a third of the usual price in the airline's hybrid business and first class cabin, which is £2,916 to Vancouver.

During the same period, the fare to Halifax, Nova Scotia, comes down from £2,164 to £799. You have to book at least 14 days before departure and you must stay a Saturday night before flying home.

But that is positively liberal compared with this time last year, when the equivalent fares required a minimum stay of two weeks.

Besides, at this time of year, with the Rockies on your doorstep in Calgary, for example, and Vancouver at its most radiant, it shouldn't be much of a penance.

Plea from the heart

Most airlines choose not to carry vital equipment which experts say could save hundreds of lives each year, a BBC travel programme will say today.

The key device needed on flights is a defibrillator, which can give an electric shock to get the heart beating regularly after an attack.

The BBC1 Summer Holiday programme will show that, of 20 major airlines questioned, only two – Virgin Atlantic, the UK airline, and Australian carrier Qantas – carry defibrillators.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	24	25	26	27	27
Hong Kong	30	31	29	29	29
London	24	21	22	24	25
Frankfurt	29	31	29	28	27
New York	27	25	28	25	27
L. Angeles	24	25	27	28	26
Milan	30	32	31	30	28
Paris	28	30	27	28	27
Zurich	25	25	26	28	28

Information supplied by Meteo Consult of the Netherlands

Maximum temperature Celsius

A new marketing team is applying the Virgin touch to ease the problems of Eurostar, writes **Charles Batchelor**

New light in the tunnel

The sleek Eurostar high-speed trains have caught the public imagination. But the British, French and Belgian railways which run them have been less successful at converting interest into willingness to buy tickets.

Passenger numbers have been much lower than originally expected. Even allowing for the notoriously inaccurate forecasting which has characterised most aspects of the Channel tunnel, Eurostar's performance has been disappointing. The trains carried just 3m passengers in 1995 compared to the 13.5m forecast for the first year.

But 18 months after the launch of commercial services, matters are beginning to improve. A marketing team from Richard Branson's Virgin Atlantic Airways has joined Eurostar and a range of promotional tickets has been introduced.

The next few months are expected to see initiatives to market the service, including the rail equivalent of "booze cruises", a limousine service to London's Waterloo International terminal, and a loyalty scheme for frequent travellers.

Business travellers will also soon be able to exchange their Premium First Class return rail tickets for travel on British Midland's Diamond EuroClass air service, allowing them to switch from train to plane or vice versa if their travel plans change or if air services are interrupted by bad weather.

Virgin is a member of the London & Continental Railways consortium which took control of European Passenger Services, the British partner in Eurostar, on June 1. L&CR has been awarded a £3bn contract to build and operate the high-speed rail link between London St Pancras and the Channel tunnel.

Eurostar plans a wider range of tickets for business travellers, including premium, standard and business first class and a business standard class. Details have yet to be announced, but in the meantime a range of cut-price tickets intended primarily, but not exclusively, for the leisure traveller has been announced.

They include inclusive rail and hotel packages from £99. Longer-distance tickets to destinations in south and west France involving a change in Lille, and to Germany with a change in Brussels, are to be introduced. These journeys may be too time-consuming for most business travellers but Lyon and Bordeaux can be reached, in about six hours, from £99 return, Marseilles for £109 and Cologne (seven hours from London) for £79.

Passenger numbers have started to build up as awareness of the Eurostar service and the frequency of departures increase. Eurostar is forecasting that 6.5m will travel this year, rising to 30m by the time the high-speed link on the UK side opens in 2003. There are now up to 16 daily departures each way between London and Paris, and seven between London and Brussels.

But trains between London and Paris are still only 60 per cent full on average while those to Brussels are just 30 per cent full. With 770 seats – 210 in first class and 560 in standard – each Eurostar is the equivalent of two Boeing 747 aircraft.

Unimaginative ticket pricing has been only one of the problems which Eurostar has had to overcome. It has also had to contend with a ticket reservation system which most travel agents could not access.

Eurostar started out using the Socrates computerised reservation system, developed by French Railways, SNCF, and its British Rail equivalent, Tribute. But for travel agents who did not already use these systems, this meant investing in another computer network, and most could not justify the cost.

"I can book an airline ticket by computer and print it out straight away but for Eurostar I have to phone a number in Ashford, which takes 20 minutes to reply, and then wait for the ticket in the post," says Roger Thompson, chairman of the Guild of Business Travel Agents' technology working party. Following complaints from travel agents, Eurostar is now extending the availability of its tickets to the more common reservation systems.

This early inflexibility extended to transferring tickets. If passengers wanted to travel on a different service to the one they had booked for, they had to buy a new ticket and claim a refund on the unused one. However, the protests have had the desired effect: straightforward ticket exchanges are now possible.

Early reliability problems with the Eurostars have also been largely overcome. The over-sensitivity of on-board computers meant that several early trips were halted when sensors mistakenly detected power supply problems and brought trains to a halt.

The computerised system has undergone no fewer than six modifications to iron out these difficulties, and Eurostar now reckons that between 85 per cent and 90 per cent of its trains are on time or within 15 minutes of schedule.

For many travellers, though, the airlines still have the edge in total journey time. The lack of dedicated high-speed tracks in the UK and Belgium means that parts of the train journey are at conspicuously low speeds. The exhilaration of travelling at 300km/h (186mph) on the French high-speed track only highlights the slowness of the sections in the UK and Belgium.

Eurostar will not establish a speed advantage over the airlines until the high-speed link is completed in the UK. Journey times now are 3 hours between London and Paris and 3 hours 15 minutes between London and Brussels. When the Belgians complete their high-speed sections in May 1998, the Brussels journey time will fall to 2 hours 40 minutes. And when the British build their fast track, journey times will fall to 2 hours 30 minutes (Paris) and to 2 hours 10 minutes (Brussels).

Meantime, the much-delayed regional services are finally to be introduced. Day-time services from Manchester and Birmingham on the west coast main line and from Glasgow, Edinburgh and Newcastle upon Tyne on the east coast line are due to start later this year, while sleeper services are due to start early next year. However, the appeal of the new generation of sleepers – despite their promise of greater comfort and privacy – is still untested.

However, Eurostar remains optimistic that it can challenge the airlines' present dominance of cross-Channel business travel. "We have only scratched the surface of the business market," said Richard Branson at the launch of the new fares and services last month. "The airlines will find a lot more business travellers will switch over."

Artful persuader, This Week

Seats up for grabs

Cathay Pacific has started auctioning US-Hong Kong seats on the Internet, Roger Bray writes. The airline sets a minimum price of US$300 (£194) in economy class, US$600 in business and US$1,200 in premium-first. Cathay believes it is the first to try cyberbids, although it has no plans to extend the system to Europe.

The airline says: "The idea was to test the Internet in the US and stimulate the market. Flights from Europe are much fuller anyway." It is thought that bids for seats from New York and Los Angeles have come mainly from individuals, but that some travel agents have also been pitching in.

● Piped music in hotels is now being relayed by satellite. Jarvis Hotels, the mid-priced UK chain, recently signed up for a system that delivers more than 100 different "moods".

John Jarvis, chairman, says: "It comes out of Georgia on the Astra channel. They are using recordings by known artistes and you can programme them into various parts of the hotel. You can have light rock at breakfast, orchestral music with dinner and something softer after that."

OPENINGS

RAVENNA
Riccardo Muti (top right) is Ravenna's most famous citizen, and his wife Cristina helps to organise the town's music festival – so there are no prizes for guessing who will conduct this year's opening concert on Sunday. Muti also directs two opera productions – "Così fan tutte" and "Cavalleria Rusticana". Guest artists at the festival include Maurizio Pollini (bottom right), Pierre Boulez (far right) and Simon Rattle.

VIENNA
John Eliot Gardiner (above), much in the news over his recent claim that Beethoven was a plagiarist, has the rare privilege of conducting the Vienna Philharmonic in its final subscription concerts of the season. He brings his own Monteverdi Choir to the Musikverein for performances of Bruckner's Mass in D minor on Saturday, Sunday and next Monday.

GENEVA
The 1995-96 season at the Grand Théâtre ends with a new production of Richard Strauss's "Arabella". The Danish soprano Tina Kiberg sings the title role and John Bröcheler is Mandryka. Günter Neuhold conducts a staging by Helmut Polixa, and the first night is on Sunday.

AMSTERDAM
An unusual attempt to reconstruct Aeschylus's tetralogy "The Danaids" is the centrepoint of this week's performances at the Holland festival. The Romanian stage director Silviu Purcarete, working with Greek scholars, has welded fragments of text into an evening of theatre. The production, with a cast of 120, can be seen at Westergasfabriek from Wednesday till Saturday, before moving to the Avignon festival next month.

CHICHESTER
Tonight, Maggie Smith (right) returns to the stage with one of her favourite co-actors, Margaret Tysack (with whom she appeared in "Lettice and Lovage" and "The Importance of Being Earnest"). This time, they appear in two of the plays originally written by Alan Bennett for television, "Talking Heads".

Master of dramatic tension

Andrew Clark talks to director Luc Bondy as his 'Don Carlos' arrives in London

The opening night of *Don Carlos* tomorrow is one of the most eagerly awaited events of the season at Covent Garden. It not only unites a stellar cast in the five-act version of Verdi's opera, sung in the original French; it also offers London a rare glimpse of the work of Luc Bondy, whose revelatory production of *Salome* was a highlight of the Royal Opera's 1994-95 season.

Along with Peter Stein, Peter Brook, Patrice Chéreau and a handful of others, Bondy, 47, belongs to that elite band of directors who have dominated world theatre in the latter part of the 20th century. The son of middle-European Jews, he was born in Zurich but educated in France, and won early recognition as a stage director in Germany. For the past 20 years he has divided his life between Berlin and Paris, tackling spoken theatre, opera and film with equal success.

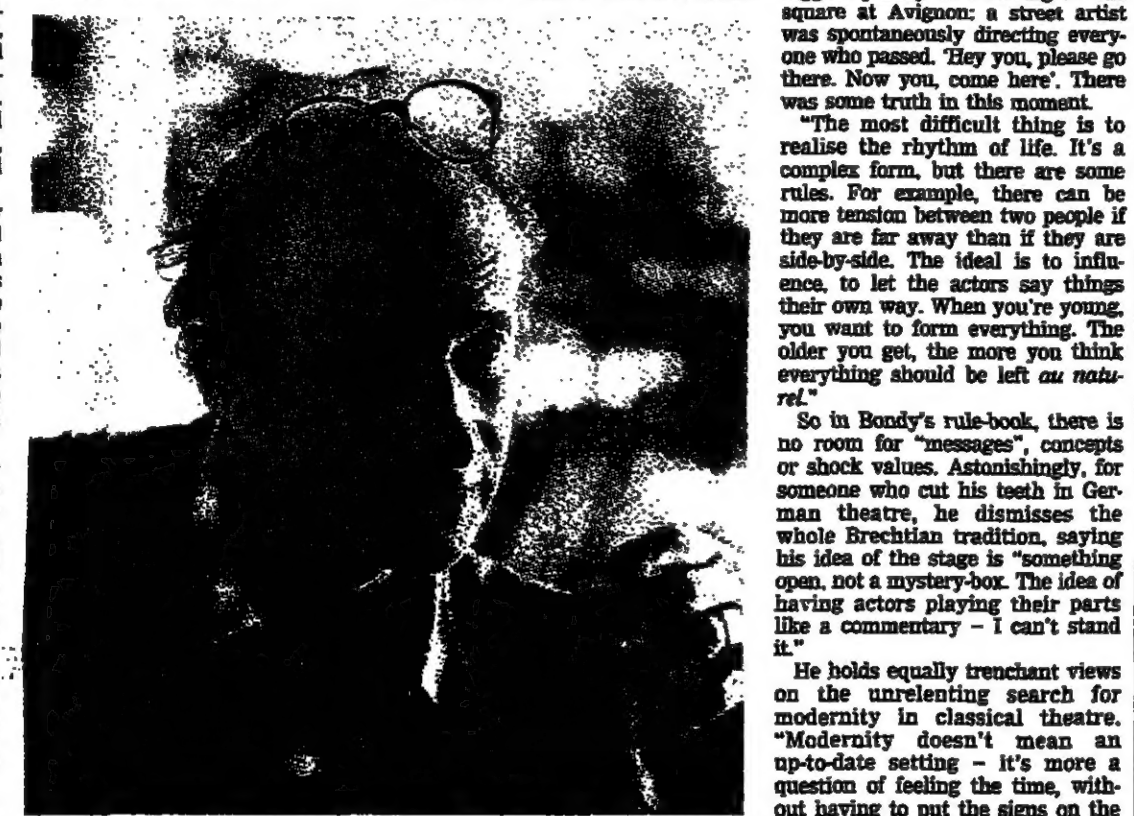
Apart from *Salome*, the only chance British audiences have had to see his work was in 1994, when his production of Peter Handke's wordless play *The Hour We Knew Nothing of Each Other* visited the Edinburgh festival. The National and several other British theatres have tried to engage him, but he says his English is not good enough.

Don Carlos, which comes to London from the Châtelet in Paris, is likely to be Bondy's last opera for several years. His Salzburg *Figaro*, one of his few flops, will be revived next month, and the Easter festival has pencilled him in for *Simon Boccanegra* in 1999. But his energies will be devoted increasingly to organising the drama programme at the Vienna festival, and directing a film of Maupassant's *Bel-Ami*, the script for which he is writing with the French author Françoise Sagan.

Bondy could have been an author himself – he wrote the libretto for Philippe Boesmans' opera *Reigen*. He could equally have been an actor or academic. But after attending Jacques Lecoq's drama school in Paris, he knew he wanted to direct, and within 10 years he was working at the Berlin Schaubühne next to Peter Stein.

At home in one of Paris's multi-ethnic *arrondissements*, Bondy comes across as a mixture of family man, workaholic and cosmopolitan intellectual. He says he would never choose to create an opera production in a big repertory theatre like Covent Garden: "Their way of working and mine just don't go together." At the Châtelet, he had six weeks of uninterrupted rehearsal on the main stage before the production opened in February. In London he has only had to supervise the restaging.

Bondy's strength as a director lies in his ability to explore human behaviour in situations of extreme dramatic tension. What is important, he says, is that we believe in the characters and their relationships, even in a context of dream or fairy-tale. Bondy's productions unfold in a wealth of meticulously disciplined detail, developed on an intuitive, quasi-improvisatory basis. For singers used to more conventional methods, it is an exacting and often frustrating process: Bondy demands their constant presence, and regularly changes the make-up of each scene. But the rewards are great, because the end-product is so strong that it can withstand the many compromises that performance entails.



Luc Bondy: 'Modernity doesn't mean an up-to-date setting ... what must be up-to-date is the way people react emotionally'

For those reasons, *Don Carlos* made a huge impact in Paris. Here were Roberto Alagna, Thomas Hampson and other gifted singers, interacting with an expressive subtlety all too rare in international opera. But some in the audience were disappointed. German critics looked in vain for a political dimension, while many of their French colleagues bemoaned the lack of spectacle. For them, Bondy had missed the point of grand opera.

Bondy is unrepentant. "They wanted a big *défilé*, they wanted to see all the pomp and ceremony of the Spanish court. I can't do this, because I don't think it's the most important element in *Don Carlos*. For me, it's a personal story about love and hate, about the world of emotions. Too often in opera, there has to be a correspondence between the grand element in the audience and a *grandness* on stage. It's visually overpowering, it's *socially* overpowering. I want to bring it back to essentials."

It was Bondy who insisted on the fullest possible five-act version. He says that even in Schiller's play, Carlos is not the most interesting person because he is too much of a victim. Elisabeth provides the key to his approach. "Hers is the problem of exile, to be in a country to which she wanted to come when she thought she was in love, but it's finished even before she leaves France. That's the reason for this version: you must see the moment when the illusions fall. She becomes a prisoner, she is *déplacée*. *Don Carlos* is long, but it tells a simple story."

Bondy makes his point at the end of the Fontainebleau scene, when Elisabeth is separated from Carlos and borne away on a charger. Later, she lies sleeping throughout Philip's "Elle ne m'aime pas!". And she is almost mown down by the Grand Inquisitor when he exits after giving Philip his ultimatum. That is one of the more contentious moments – and even Bondy professes himself uncertain about the *auto-da-fé*.

He says it is difficult to direct opera when he does not believe in the music, the *auto-da-fé* being a case in point: "It's anti-clerical, parodistic. While people are executed on stage, the music tells the audience to feel happy about it. The compulsion is to go 'Bravo!'. But that's opera. In a work as big as this, it's normal. In some plays by Shakespeare, you also have moments when you think 'What can I do with this?'. Parts of *The Winter's Tale* are impossible. It's as if the musician, the dramatist, loses himself a bit and has to find himself again. It has to be like that, it's like life. There are very few works with a real force from start to finish."

Bondy defines the role of a stage director as "writing in the air". He says the problem is that it's a contradiction: "Why should you have to tell someone how to cross a room and open a window? I once saw the biggest parody of directing in the square at Avignon: a street artist was spontaneously directing everyone who passed. 'Hey you, please go there. Now you, come here'. There was some truth in this moment.

"The most difficult thing is to realise the rhythm of life. It's a complex form, but there are some rules. For example, there can be more tension between two people if they are far away than if they are side-by-side. The ideal is to influence, to let the actors say things their own way. When you're young, you want to form everything. The older you get, the more you think everything should be left *au naturel*."

So in Bondy's rule-book, there is no room for "messages", concepts or shock values. Astonishingly, for someone who cut his teeth in German theatre, he dismisses the whole Brechtian tradition, saying his idea of the stage is "something open, not a mystery-box. The idea of having actors playing their parts like a commentary – I can't stand it."

He holds equally trenchant views on the unrelenting search for modernity in classical theatre. "Modernity doesn't mean an up-to-date setting – it's more a question of feeling the time, without having to put the signs on the surface. If you don't reach the nerve-centre of the work, in the way singers move and sing together, all you have is an opera with modern decor, played out in a traditional way.

"What must be up-to-date is the way people react emotionally and physically, because this has changed with time. In the 17th, 18th and 19th centuries, people behaved as if very much in control, and they collapsed if something terrible happened, like an overreaction. We're in another time, we have different signs. You see it in the conventions of American cinema – the way actors like Al Pacino point their finger. I'm sure in Shakespeare's or Verdi's time they never acted like this. Perhaps opera hasn't got to grips with the fact that the grammar of moving has changed. 'Modernity' means getting the actors to react in a way that means something to us, and matching it to the historical setting of the author's imagination."

'The Stop Quartet': eccentric in the Max Wall tradition

Dance reinvented

Clement Crisp admires Jonathan Burrows' latest work

Looking at Jonathan Burrows' choreography, you see movement that seems both raw and rigorous. It can look cussed, but it is scrupulously made. It may have no apparent argument, but it speaks of the human condition – which, as we know too well, is raw and cussed. Over the past decade, Burrows' work – its titles of *Stoics*, *Hymns*, *Rainy day*, *Very* and *Our* suggestive of its gritty manner – has held our interest by the intensity of its means. His latest creation, *The Stop Quartet*, which I saw in Sheffield's Crucible Theatre on Thursday, is his most daring and most uncompromising piece to date.

It looks, indeed, as if he is re-inventing dance for himself, like those deadly New York experimentalists at Judson Church in the 1960s, but from a position of profound dance understanding. The elements are neolithic – stamping, treading, walking, crouching, squatting, bodies bent, arms extended in semaphore line.

But if the manner is primitive, it is willed, highly conscious, acutely judged, structured. It is computer graphics of the walls of the Lascaux caves. The dance floor is a Mondrian, pale blue intersected by patterns of white light. The score (not otherwise identified, which is a shame) is by Matteo Fargion and Kevin Volans – writing for two pianos, by turns calm and vehement, with a final section of African bush noise.

The piece lasts for 45 minutes, and its formal shape, even its internal logic, is not hard to discern. The opening finds Burrows (his Royal Ballet past still clear in the balance of his physique) working with Henry Montes, reedier, more gangling, looser in style.

They wear trousers, t-shirts. They tread the floor, watch each other from the corner of their eyes, move in and out of pattern and canon. Action is dislocated. Bent forward, a hand placed behind a knee, they pause, move on their mysterious paths. They show the ungainly but fascinating steps of the mentally ill, and suddenly break into quick, flickering gesture. At moments they are like birds, beady-eyed for worms on a lawn, and Montes even has a stork-like and ataxic walk.

Nothing we see has anything in common with dance as we usually see it, but the style is Burrows' own, and springs organically from his previous creations. He is an eccentric, both in the sense of non-conformity and in that vein of a music-hall tradition of "eccentric dancing" whose last fine flower was the great Max Wall.

But this eccentricity is bound by a clear concern with rule, and with ideas of how meaning may be understood in movement. (Balanchine's plotless work is the supreme example.) Some years ago, Burrows told me of his interest in a phrase used by the German/American choreographer Hanya Holm when teaching: "space shattered by the inner excitement of the dancer whose body is the focal point". (The quote, I hope, is exact.) *The Stop Quartet*, for all its awkwardnesses, seems acutely aware of space and time and how they may be divided or shattered by dancing.

The piece is also a crescendo. After 25 minutes, a girl – Fin Walker – joins the two men, her entrance exactly timed. The dance becomes weightier, opens out. Watching it, I found stronger patterns, perceptible rhythms emerging, and the dance's relationship with the music become clearer. For the last five minutes, Kate Gowar also joins in. The lighting changes – the blue ground becomes black – and the dancers form a single file, with Montes breaking ranks within the line by flailing and collapsing. The dance ends.

Odd. Odder than odd, it is difficult, very far out, and insidiously rewarding. Where Burrows journeys next I would not dare guess. But I want to travel with him.

The Stop Quartet will feature in the autumn tour of the Jonathan Burrows Group, and will be seen in Dance Umbrella.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Ensemble Intercontemporain: with conductor David Robertson and mezzo-soprano Rosemary Hardy perform works by Schoeller, Ton de Leeuw and Boulez. Part of the Holland Festival '96; 8.15pm; Jun 13

■ ATHENS

CONCERT
Athens Concert Hall
Tel: 30-1-7282333
● The Budapest Festival Orchestra: with conductor Ivan Fischer and tenor Hans Peter Blochwitz perform Liszt's 2 Episodes from Lenau's Faust, Tasso, and A Faust Symphony; 8pm; Jun 14, 15

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Joachim Dalitz and Rolf-Dieter Arens: the organist and pianist perform works by Peters, Weischenz, Dupré and Saint-Saëns; 8pm; Jun 13
Staatsoper unter den Linden
Tel: 49-30-2082861
● Staatskapelle Berlin: with conductor/violinist Pinchas Zukerman perform Mozart's Violin Concerto in G major, KV216, Violin Concerto in A major, KV219 and Symphony in D major, KV385; 8pm; Jun 11, 12
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● L'Italiana in Algeri: by Rossini. Conducted by Ion Marin and performed by the Deutsche Oper Berlin. Soloists include Larmore, Person, May, Di Stefano and Lukas; 7.30pm; Jun 12

■ COPENHAGEN

EXHIBITION
Statens Museum for Kunst - Royal Museum of Fine Arts
Tel: 45-33 91 21 26
● Erik Mortensen. Classic Art: exhibition combining the museum's collection of renaissance, baroque and rococo art with some 120 haute couture models by the Danish fashion designer Erik Mortensen; to Sep 1

■ DUISBURG

EXHIBITION
Wilhelm-Lehmbruck-Museum
Tel: 49-203-2832630
● Altersbildnisse in der Abendländischen Skulptur: exhibition focusing on the theme of old age in Western sculpture. The display features 72 works, including Egyptian, Greek and Roman sculptures and works by artists such as Rodin, Lehmbruck, Kollwitz, Picasso, Marini and Dalí; to Jun 30

■ FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Verdi-Puccini-Rossini Gala '96: a programme of arias and duets by Verdi, Puccini and Rossini, and Italian folk-songs, performed by the Charkow Philharmonic Orchestra conducted by A. Dzurmy; 8pm; Jun 12

■ GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● Kris Kristofferson: performance by the American singer; 8pm; Jun 11

■ LONDON

CONCERT
St. John's, Smith Square
Tel: 44-171-2221061
● Della Jones: accompanied by pianist Malcolm Martineau. The mezzo-soprano performs songs by Zum Steeg, R. Schumann and Berlioz; 7.30pm; Jun 11
EXHIBITION
Museum of the Moving Image/MOMI Tel: 44-171-9283535
● Image-ine: this exhibition celebrates 100 years of film and takes a leap in the future. Multi-media stations display an encyclopaedia of facts from a century of film; from Jun 14 to Oct 9
Royal Academy of Arts
Tel: 44-171-4397438
● Gustave Caillebotte 1848-1894. The Unknown Impressionist: exhibition featuring works by the French Impressionist painter Caillebotte; to Jun 23
THEATRE
Barbican Theatre
Tel: 44-171-6388891
● Julius Caesar: by Shakespeare. Directed by Peter Hall and performed by the Royal Shakespeare Company. The cast includes Christopher Benjamin; 7.15pm; Jun 11, 12, 13 (also 2pm)

■ LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art Tel: 1-213-857-6000
● Masterpieces in focus - Paintings of Zhi Garden by Zhang Hong: Revisiting a Seventeenth-Century Chinese Garden: this exhibition focuses on a set of Chinese album paintings entitled "Paintings of the Zhi Garden" by Zhang Hong. Painted in 1627, the 20 leaves of Zhi Garden depict a private garden estate in Suzhou; to Jul 21

■ LYON

DANCE
Opéra de Lyon Tel: 33-72 00 45 00
● Ballet de L'Opéra National de Lyon: perform Dominique Bagouet's Deserts d'Amour to music by Mozart and Murail, and Stéphanie Aubin's Volti Subito to music by Eichmann; 7.30pm; Jun 11, 12 (8.30pm)

■ NEW YORK

EXHIBITION
International Center of Photography Tel: 1-212-860-1777
● Josef Sudek: The Pigment Prints 1947-1954: exhibition marking the 100th anniversary of photographer Josef Sudek's birth. During the 1940s Sudek chose to make contact prints from large-format negatives (instead of enlarging his negatives) in order to retain the sharpness and full detail of the image. The exhibition features the negatives which Sudek printed with the charcoal, carbon and carbo process known as pigment printing; to Jun 30
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Modern Glass as Art: this exhibition, selected from the Metropolitan's collection of 20th-century architecture and design, explores glass as a medium for contemporary art and includes works made by a variety of techniques manipulating the glass through blowing, casting, etching, flameworking, and stained glass; to Oct 6

■ PARIS

CONCERT
Théâtre des Champs-Elysées
Tel: 33-1 49 52 50 50
● Ein deutsches Requiem: by Brahms. Performed by the Orchestre des Champs-Elysées with conductor Philippe Herreweghe. Soloists include soprano Christiane Oelze and baritone Gerald Finley; 8.30pm; Jun 11

■ TEL AVIV

OPERA
The Opera House - Performing Arts Center Tel: 972-3-6927777
● Werther: by Massenet. Conducted by Gary Bertini and performed by The New Israeli Opera. Soloists include François Loup, Sami Bechar and Boaz Daniel; 8pm; Jun 11, 13

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Ernst Kovacic: the violinist performs works by J.S. Bach, Eröd, Gruber and Pirchner; 7.30pm; Jun 11

■ WASHINGTON

EXHIBITION
National Museum of American Art
Tel: 1-202-357-2700
● Mark Lindquist: Revolutions in Wood: the first full-scale retrospective of the art of woodturner Mark Lindquist focuses on vessels from the past 25 years. Among the 40 works are examples from his series Natural Top, Emerging, Ascending, Unsung Bowls, Captives, Conundrum, and Totem; to Jul 7

■ ZURICH

CONCERT
Tonhalle Tel: 41-1-2063434
● Tonhalle-Orchester: with conductor Alan Gilbert and cellist Truls Mork perform works by Schubert and Shostakovich; 7.30pm; Jun 11, 12, 13 (8pm)

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

WORLD SERVICE
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EUROPEAN CABLE AND SATELLITE BUSINESS TV
(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Michael Prowse · America

Your turn, Bob

Bill Clinton has fired the first salvo in a tax-cutting war and Washington is now awaiting Bob Dole's response

Bob Dole, the Republican candidate for president, has spent a lifetime opposing other people's tax cuts. He instinctively favours austerity and was as contemptuous as George Bush of the "Voodoo" economics of the Reagan era. One of his last acts in the Senate was to push yet again for a constitutional amendment to balance the budget. Yet it seems all but certain that he will shortly unveil an ambitious plan for cutting and reforming the nation's taxes.

In public Democrats are advising Mr Dole not to do anything so foolish. But in private they worry that a flamboyant tax pledge – say a 15 per cent across-the-board cut in income tax rates – could revive his electoral fortunes. You can tell the White House is nervous of being outflanked: last week President Bill Clinton responded in advance to the expected Dole proposal by offering a $1,500 (£974) tax credit against the cost of higher education – a transparent attempt to earn the favour of middle-income parents struggling to pay their children's college bills.

The jousting over tax cuts may seem incredible given both candidates' solemn pledges on deficit reduction, not to mention last week's revelation that Medicare, the public healthcare scheme, will go bankrupt by 2001, a year sooner than expected. But taxes are the lifeblood of US politics. Americans have never lost sight of a simple truth: that governments have no resources of their own and can function only by redistributing the income of private citizens.

Indeed, as John Calhoun, a radical 19th-century political theorist observed, if you net out the benefits that individuals get from public services, the population is necessarily divided into two great classes: taxpayers (those who pay out more than they get back in public services); and tax consumers (those who, in effect, live off the productive members of society). Republicans gain support disproportionately from net providers of resources; Democrats from the net beneficiaries of taxation – Calhoun's tax consumers. Periodic clashes over taxation – over who should support whom and to what extent – are thus inevitable: they are the main reason for having two political parties.

Republicans sense that Mr Clinton is vulnerable on taxes. In his 1992 campaign he promised a tax cut for anxious middle-income families. But he ended up raising taxes substantially, especially on high earners; the only group to get relief was the working poor, via an extension of the earned income tax credit. The top rate of income tax is now more than 40 per cent, about a third higher than when Bush left office. As the chart shows, federal revenues have increased from 17.7 per cent of gross domestic product in 1992 to an estimated 19.1 per cent this year.

This is a noticeable increase. Federal revenues have averaged 18.1 per cent of GDP since the early 1960s, with no sustained tendency to rise in recent decades. The only periods to show a comparably rapid increase were the late 1960s, when taxes were raised to pay for "Great Society" social programmes and the Vietnam war, and the late 1970s when double-digit inflation pushed people unwittingly into higher tax brackets. But Mr Clinton has not faced war or oil crises. And he has nothing to show for his tax increase, except a slightly reduced federal deficit, which excites little gratitude.

He has been struggling to reposition himself since 1994. Soon after the Republicans regained control of Congress, he announced the so-called "middle-class bill of rights". In their latest guise these "rights" consist of tax relief to the tune of $129bn by 2002. The main elements are a $500 tax credit for children under 13, a $10,000-a-year tax deduction against the cost of higher education, and tax incentives for individual retirement saving.

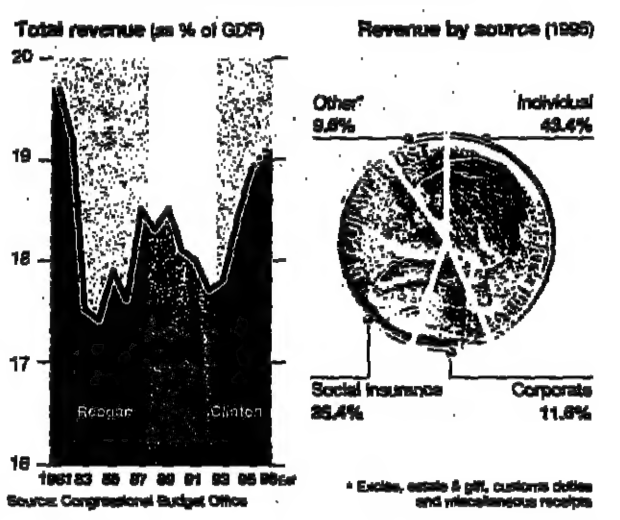
Alarmed at the prospect of a radical Dole plan, the White House last week took out extra insurance. The $1,500 tax credit, which would be available for two years, is aimed specifically at blue-collar families paying too little tax to get the full benefit of the $10,000 deduction for higher education. The credit is payable in cash to poor families and would roughly cover the cost of tuition at a community college (a cheap alternative to university for less academic students). The point of the extra relief, Mr Clinton says, is to make two years of college affordable for all – and hence a new minimum standard for the workforce.

By proposing only a small extra tax cut, and one targeted on something as worthy as higher education, Mr Clinton is trying to strike a statesmanlike pose. But even Democratic-leaning economists acknowledge that tax credits are an inefficient way to expand educational opportunity: most of the benefits would be dissipated on students who would have attended college anyway.

The risk is that Mr Clinton has surrendered the high ground on taxation without offering voters anything particularly appetising. If he heeds his advisers, Mr Dole will emphasise the need for across-the-board cuts in tax rates to stimulate more saving, investment and growth. He will argue that the economy's annual growth rate of little more than 2 per cent is pathetic by the standards of the 1980s, and blame the slowdown on Mr Clinton's big tax increase. And he will promise that a tax cut will be followed in a Dole presidency by radical reforms to simplify the entire tax code.

Mr Dole's supporters are urging him to promise a 15 per cent cut in income tax rates because this would in effect wipe away the Clinton tax increase, returning revenues to roughly the same share of GDP as in 1992. As a political gesture, this might have a certain resonance with voters. But whether someone as fiscally conservative as Mr Dole can bring himself to be that bold – some would say irresponsible – remains to be seen. To maintain credibility, he would have to identify spending reductions that would offset a good deal of any proposed tax cut. That can be excruciatingly difficult, as Newt Gingrich found to his cost last year.

Taxes: Clinton reverses Republican cuts



Source: Congressional Budget Office

* Excise, estate & gift, customs duties and miscellaneous receipts

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e-mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Leave judges' role on sentencing alone

From Mr Keith Wedmore.

Sir, "At the apparent whim of the judge ... a totally inadequate sentence" (Letters, June 5). Rubbish. The point of principle here, which nobody seems willing to canvass, is the question of function: Whose job is it to do what? Parliament, let alone the electorate, is not trained and experienced in sentencing, nor has it any idea of the circumstances of this offence, or the character and position of this offender. That is the job, duty, training and opportunity of judges. To take it from them is not only an affront to the separation of powers, it derogates from good government and from justice.

Here in California we have, what? 130,000 prisoners at some $28,000 a year per head. We had in 1980 12 prisons and we now have 35 with three being built. This is in part due to "Three strikes and you're out" (mandatory sentences). Long sentences are not a deterrent; it is the prospect of detection and conviction which matters. If you go down the road of stripping their function from the judges, you will have not just unfair sentences, but make taxpayers pay for huge numbers of prisoners who, on release, will be totally institutionalised and rightly embittered.

Please remember that the present sentencing powers are adequate; that no one denies that; and that the pianist may or not may not be doing his best, but if you want piano music don't ask the audience to play the piano.

Keith Wedmore,
(barrister at law, Inner Temple),
5 Cornelia Avenue,
Mill Valley,
California 94941-1840,
US

UK big business out of touch with real feeling on EU

From Mr Andrew Phillips.

Sir, Mr Niall FitzGerald has his nightmares ("A European nightmare", June 5) but his antidote to it creates nightmarish concerns in the likes of me. While it is entirely legitimate for him and the Confederation of British Industry to make their views forcibly felt in the public debate about the future of the European Union, and while I happen to agree with the diagnosis that withdrawal from the EU is not a realistic option, there is a one-eyed quality about his argument.

In several places he makes the point that there is a business view of Europe and a political view. With regard to the 1975 referendum, for example, he says that "our arguments had more substance than those of the politicians".

He characterises the political debate as so lacking in quality as to leave him "close to despair" and claims that "some politicians and media commentators seem to show little respect for ... our fellow citizens". Yet nowhere does Mr FitzGerald show any realisation of the increasing antagonism of his fellow citizens to the onward march of the EU towards political union.

If that is typical, and I think it is, big business is as out of touch with the hopes and fears of so-called ordinary people as the big bureaucracies in Whitehall and Brussels. Many in those camps make it clear that they think Europe is beyond the ken of the common man and must perforce be left to the business and bureaucratic elites to decide upon.

It is that arrogance which is at the root of the present widespread malaise. Unless the CBI, along with Whitehall and Brussels, mend their ways and recognise that there is a politics to economics which will ultimately determine our

fate, nothing constructive will be achieved.

Andrew Phillips,
Bates, Wells & Braithwaite,
solicitors,
61 Charterhouse Street,
London, EC1M 6HA, UK

From A.M. Miller.

Sir, Mr Niall FitzGerald's article was unfortunately full of the soundbite Eurospeak we continually hear from bureaucratic, politically motivated Confederation of British Industry heads. Statements such as "... it is fundamental to our success that the UK remains at the heart of Europe ... the economic consequences of withdrawal would be horrific ... tariffs would be imposed by Brussels on UK goods and services ... no multinationals would invest in the UK ... withdrawal from the EU is not an option" are typical examples.

Sorry, Mr FitzGerald, but withdrawal from the EU is an option and one that is not "irresponsible and self-indulgent". You do not have to be in the EU to trade with it – ask Norway, Switzerland, or the US, all of which export significantly more per capita to the EU than the UK. And they do not have to pay £4bn ($6.16bn) a year for the privilege.

The problem with the EU is that it is anti-free trade. The Common Agricultural Policy is a prime example of this. The EU is mainly there to put up barriers to the rest of the world, especially Japan, keep obsolete French peasants in business, protect the overpayment of coddled German industrial workers, and give jobs to lots of parasitic bureaucrats in Brussels. Joining a Fortress Europe would cut the UK off from the dynamic economies of the far east and North America. We would be better buying cheap food from New Zealand and cheap cars from the Far East than expensive food from France and expensive cars from Germany. Furthermore, if we had a free-trade policy there would be no need to employ bureaucrats – but perhaps this is what Mr FitzGerald is most afraid of, as he is clearly one and anxious to join the Euro-gravy train.

A.M. Miller,
Harris & Sheldon Group,
North Court,
Packington Park, Meriden,
via Coventry, UK

From Mr D.R. Chandler.

Sir, I enjoyed the spoof article by Niall FitzGerald despairing of the quality of debate regarding Britain's membership of the European Union. However, I think most politicians would draw the line at stringing quite so many clichés together.

Maybe membership of the EU is the new religion promising us all nirvana?

D.R. Chandler,
18 Homefield Road,
Bromley, Kent, UK

US proves the opposite

From Mr Denis MacShane MP.

Sir, You report ("Defeat over US minimum wage", May 24) that 77 Republicans joined Democrats in the House of Representatives to raise the minimum wage by 90 cents to $5.15 an hour – about £3.45.

The US has the best job-creation record in the OECD, yet a constant refrain from the British Conservatives is that a minimum wage costs jobs. The US experience proves the opposite.

Denis MacShane,
House of Commons,
London SW1A 0AA, UK

Observers saw no fraud at Albania elections

From Mr Jonathan Sunley.

Sir, What makes Edward Mortimer think that President Sali Berisha might have frustrated the will of those Albanians set on voting against him ("The awkward squad", June 5)?

Yes, accusations of irregularities have been levelled against the first round of Albania's parliamentary elections held on May 26. It is noticeable, however, that both the FT, and most other newspapers which have picked up on these, have only been citing the opinions of *individual* observers from the UK, Norway and Germany (for example, your report on May 29 – "Albanian police clash with protesters"). For the record, our own team of five observers sent to monitor these elections by the UK Helsinki Human Rights Group, saw no examples of fraud or intimidation – nor anything else which might cause us to question the overall integrity of the results. Moreover, in their official post-election statements, neither of the Organisation for Security and Co-operation in Europe's two teams on the ground in Albania came to the conclusion that the elections had not been free and fair.

Understandably, many have expressed indignation at the use of riot police to disperse a protest demonstration organised by the opposition two days after the first round. It must be borne in mind, however, that had jubilant supporters of the Democratic party entered the main square in Tirana where this rally was planned to take place, there might have been bloodshed on a far larger scale. In these circumstances, the Albanian authorities' decision to forestall the possibility of such head-on clashes was a pragmatic one.

Jonathan Sunley,
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Personal View · David Williamson

Players on the same side

The European Union has swept away mountains of forms and miles of red tape

The best cure for the disease of Euroscepticism prevalent in the UK is a dose of commonsense: in the European Union the British have 370m friends and the largest market in the world for 2p a week each.

One of the weirdest misunderstandings which pervades comment in the British press is that somehow the EU or the European Commission are against Britain. Of course they are not, because they are on the same side. All the important decisions in the EU are taken in the Council by the British minister and the ministers of the other member states, either with the advice of or in co-decision with the democratically elected parliament.

Some things remain to be done to complete the level playing field in the single market. But let us remember the scale of this huge liberalisation of markets which has swept away mountains of forms and miles of red tape which national administrations used to impose on us if we wanted to export a cheese or to buy and sell goods and services in western Europe. Of course costs have been saved – for example about £40 and a day's time for a lorry going from Britain to Italy and back. But the potential of the single market for improving our competitiveness and increasing prosperity has not yet been fully tapped.

The net cost for each Briton of the EU's budget expenditure in 1994 was 2p, or four postage stamps a year. If you think the year not typical and take a three-year average, the net cost is still less than half of one National Lottery entry a week.

EU membership has also helped the UK keep inflation down. As for economic growth, it is true that Europe has seen a slowdown at the end of last year and early this year. But we need to keep a sense of perspective. The EU still grew faster last year than the US and Japanese economies. In money terms the growth in the EU was greater than the total growth of the "Asian tigers" and China.

It is a serious mistake to underestimate the strength of the European economy and its trading weight. Britain exports more to Belgium and the Netherlands than to the US; its exports to Germany equal those to the US and Japan combined; it exports as much to France as to the whole of the Commonwealth. In 10 years British financial and other business services have tripled their trade surplus with the rest of Europe. At the end of last year the UK's trade deficit with countries outside the EU had deteriorated to its worst level in seven years.

There is a lot of misunderstanding about the EU budget. It is about 2.5 per cent of total public expenditure in all member states and at present about 1.2 per cent of Europe's gross national product.

Contrary to the general impression in Britain, this is what has happened to Community spending in the past two years: in 1994 it fell by 7.3 per cent, that is to say by more than £3.5bn, and last year it was slightly above its level of two years earlier. In 1994 the budget was underspent by £7.7bn and last year by £7.91bn, which was of course returned to taxpayers. Let us hope that they got the advantage of it. The Commission has continued its rigorous policy in the draft budget for 1997: an increase of 2 per cent, lifted to 3 per cent by the very heavy expenses – about £740m – due to BSE. The improved budgetary situation reflects, of course, the success of the reform of the common agricultural policy. We have substantially cut support prices for important products such as wheat.

In this fast improving situation we were confronted with the problem of BSE – bovine spongiform encephalopathy or mad cow disease. BSE is a British problem. It is a serious problem of animal health – 160,000 confirmed cases is a tragedy – and possibly of human health.

> Britain's role in the European Community, and now the EU, has been the central plank of UK foreign policy for almost half a lifetime

Britain is not a net exporter of beef. It is normally a net importer. Twenty-one countries have for various reasons banned British beef in the period since 1990 and, following the British announcement of a possible link with human Creutzfeldt-Jakob Disease, a further 39 countries imposed a ban before the EU did so.

All member states had imposed or announced bans before the Union acted. The Commission, however, has taken the initiative to remove the ban on some derived products, subject to controls on their manufacture and in line with the scientific advice.

Together with the defence shield of Nato, Britain's role in the European Community and now the EU has been the central plank of British foreign policy for almost half a lifetime. It is true that when the European Community began Britain failed to understand its potential and, because Britain was not a member, it did not influence the development of policies such as the common agricultural policy. But after the British people decided to join, Britain has been able significantly to influence European developments. I very much hope that it will again be able to do so in years ahead.

David Williamson is secretary-general of the European Commission. This is an abridged version of a speech in York.

COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday June 10 1996

The chips are down

The five-year-old semiconductor agreement between Japan and the US has long been a model of how not to conduct international trade policy. When it expires this July, it will not be missed. The danger is, however, that it will be replaced by another arrangement almost as bad.

The present agreement has several unattractive features. Because it is bilateral, it risks discriminating against third parties. By setting numerical targets for foreign chip sales in Japan, it encourages managed trade. Japan and the US interpret these targets very differently, aggravating diplomatic tension between them.

It is not surprising that Japan has refused to renew the agreement. However, that does not justify Tokyo's proposed solution, apparently endorsed last week by European chipmakers. That is a semiconductor industry collaboration pact which would link all the world's chipmakers. Its scope is unclear, but the Japanese industry has suggested it should cover relations between semiconductor producers and users, standardisation, environment and safety, intellectual property rights and the exchange of market data.

The proposal would not directly replace the US-Japan agreement, nor apparently address the same issues. It could play a positive role by helping Japan deflect US pressure for renewed numerical targets. And by including producers from the EU and other chipmaking countries, such as Taiwan and Korea, it would shift the framework of debate from bilateral to multilateral.

But although last week's agreement is said explicitly to envisage co-operation based on free trade and open markets, it gives grounds for concern. Not the least is that it is backed – and partly inspired – by Japan's Ministry of International Trade and Industry and the European Commission.

There are sound commercial reasons for cross-border collaboration in an industry as international as semiconductors. But these do not require the blessing, still less the active support, of governments. The danger is that, by design or by default, their involvement would turn the proposed "market-driven" cooperation into politically motivated collusion, which would promote the interests of producers against those of consumers. That risk is particularly great in a highly capital-intensive business prone to big price swings – a trend highlighted by the current sharp downward trend in the pricing cycle.

The US seems unlikely to find the EU-Japan proposal attractive, suggesting it may not go far. But Japan and the EU might draw a useful lesson from this episode. The present US-Japan agreement is indeed objectionable. But it should not be replaced with a scheme which risks perpetuating political involvement in this crucial industry.

Irish theatre

The opening session of talks on the future of Northern Ireland seems set to prove an uncomfortable spectacle. Barring a last-minute re-instatement of the IRA ceasefire, representatives of Sinn Féin, rightly, will be turned away at the door. Their noisy protest will be echoed by unionist complaints about the pivotal role in the negotiations of Mr George Mitchell, the former US senator.

So the odds are that optimistic statements by Mr John Major and Mr John Bruton, the UK and Irish prime ministers, will quickly be followed by intense wrangling among the invited parties about the way the negotiations are to be conducted. There are already fears that Mr Ian Paisley's Democratic Unionists will look for an early opportunity to stage a theatrical walkout.

Those who have watched so many other past initiatives in the province founder on the rock of sectarian mistrust may be forgiven for predicting that this one is destined for the same fate. The last serious political talks, in 1991-92, collapsed in deadlock.

But before bowing to the fashionable gloom, it is worth recalling the essential aim of this latest set of negotiations. The constitutional parties in the province are being asked to hammer out a set of political arrangements to which unionists and nationalists alike could offer allegiance.

The ingredients of such a settlement are clear: a new Northern Ireland assembly which guarantees and respects the rights of the Catholic minority; increased cross-border co-operation with the Republic; and a new framework for relations between London and Dublin. All the above would be underpinned by a joint Anglo-Irish commitment that Northern Ireland will remain part of the UK for as long as a majority of its people so wish.

There is no reason why any of the parties should not sign up to those objectives. The question mark lies over whether, once again, they will allow the mistrusts and suspicions of the past to elbow aside rational debate and necessary compromise.

Here, one of the main challenges is for the unionist parties in general and for Mr David Trimble's Ulster Unionists in particular. Understandably in the light of the resumption of IRA violence, unionists have appeared reactive and defensive in recent months. Their public statements have been directed towards rejecting the proposals of others rather than at offering their own solutions.

It is as much in the interests of unionists as nationalists, however, that Northern Ireland has a framework to provide parity of rights and esteem for its Catholic community. Mr Trimble and his colleagues should focus their efforts now on reaching such an accommodation. The unionists hold a veto over Irish unity, but the surest guarantee of the union with the UK would be a political settlement which won the allegiance of the minority as well as the majority in Northern Ireland.

All bull

A curious feature of capital narkets is their ability to become rrationally obsessed with a single nonthly statistic. In the period vhen money supply targetry was n vogue in the 1980s, investors in he English-speaking economies vere manically preoccupied with he movements of the money supply. Today the equivalent obsession is with the US non-farm payoll data, which reflects the ıshionable concern with output aps – the difference between ctual and potential output, which an be used as a measure of the kely inflationary pressure in the conomy.

Obsession breeds extreme reacons. When the payroll data nerged on Friday the Dow Jones dustrial Average took a neurotic -point dive in the 30 minutes at followed the announcement, ly to end nearly 30 points up on e previous day's close.

Such behaviour is not confined responses to statistics. Gurus n wield comparable power. In e 1970s and 1980s there were nes when markets hung on ery word uttered by Mr Henry ufman or, in Britain, Mr Gordon Pepper. Today Mr George os of hedge-fund fame enjoys h esteem that he can admit to illion dollar losses without ng face or influence.

erhaps the greatest current u of them all is US Federal erve chairman Mr Alan Greenn. His record has been undeni- impressive, which is why his statements are analysed with a degree of care normally associated with Homeric scholarship. What makes his act so impressive is that the Fed's ability to move interest rates is largely a matter of perception. Its open market operations are, in fact, confined to the tiny and highly artificial federal funds market.

The danger in relying on gurus is that their reputational shelf life is invariably limited by human fallibility. It is when their pronouncements are treated with the same respect as those of the Pope on matters of faith and doctrine that they are potentially most misleading. As for the statistics, there were few more misleading guides to the stance of monetary policy than sterling M3 when it was being targeted most enthusiastically. Why, then, do markets become so mesmerised?

In part, it is the fund managers' traditional herd instinct. But in the case of the payroll numbers, they are not such a bad proxy, when taken cumulatively, for the factors that might prompt the Fed to raise interest rates. The real peculiarity on Friday was the equity market response. Despite the increased likelihood, after the announcement, of Fed tightening, prices ended up higher. In a market where valuations are already looking stretched, the buy-on-weakness mentality is remarkably deeply entrenched. Mere statistics will not suffice to tame this bull.

FT Interview • Bill Gates

Challenges to the seat of power

Microsoft's chairman is making up for lost time as competitors establish their places in the Internet market, say **Louise Kehoe** and **Hugo Dixon**

"If you sit still, the value of what you have drops to zero pretty quickly." Bill Gates is not sitting still, literally or figuratively. The Microsoft chairman and chief executive rocks vigorously back and forth as he fields questions about his company's response to competition from Internet software developers.

The rapid to-and-fro motion, a well-known Gates mannerism, seems particularly apposite. He was caught napping, critics charge, by the rapid advance of the Internet and how it would transform the personal computer software business.

Prophets of doom have predicted that the Internet could be Microsoft's undoing. Some have drawn parallels with International Business Machines, which found its domination of the computer industry undermined in the 1980s by low-cost microprocessor chips and software standards which left behind its mainframe technologies.

Now, as the world leader in personal computer software, Microsoft is being forced to adapt to the emergence of the Internet which is bringing new standards for how computers communicate. If he does not keep pace with his rivals, Microsoft PC software could be eclipsed.

Yet unlike IBM, whose sclerotic culture prevented it from adapting to change, Mr Gates is now moving rapidly to make up for lost time. Indeed, he is preparing to unveil the latest stage in his Internet counterattack – his plans for corporate "intranets", office networks that adhere to Internet standards – at a day-long presentation to customers, analysts and the media in California's Silicon Valley – this week.

His notoriously competitive spirit, which helped Microsoft achieve its dominant role for PC operating systems and applications, is now trained on his Internet rivals. "The fact is that most of our operating systems competitors seem fatigued. Fine, now we have got new competitors," he says. "It is always fun to be the underdog."

The motto for the fightback is "embrace and extend". In practical terms, this means putting the Internet at the centre of everything Microsoft does, he says. "The Internet is not a fad in any way. It is a fantastic thing; it makes software and computers more relevant."

His strategy is quickly to adapt Microsoft's core products so that they can use the existing capabilities of the Internet while creating new types of Internet programs ahead of his competitors.

Microsoft, however, is coming from behind. The company that virtually owns the playing field for the PC software market is being forced to play on its competitors' turf for the first time in many years. Without the "home-field" advantage of control over standards to which it is accustomed, Microsoft's technical prowess will be put to the test.

The challenge comes from three main sources. The first is Sun Microsystems, the leading manufacturer of servers, the computers that store information distributed through the Internet and intranets. Sun has created Java, a programming language that is catching on fast among application software developers. On the back of Java's success, Sun has recently launched a range of related products that together constitute a new computing "platform" to compete with PCs running Microsoft programs.

Then there is Netscape Communications, which leads the market for "browser" programs that enable PC users to view multimedia documents on the Internet. The threat is that Netscape could displace Microsoft's Windows operating system.

The third Microsoft challenger is Oracle, the world leader in database software. It is trying to dethrone the PC from its dominance of desktop computing by promoting a new category of devices dubbed "network computers" – low-cost terminals tailored to the Internet.

Mr Gates has answers to all three. To Sun, where Mr Scott McNealy, the chief executive, has been needling Mr Gates with a flurry of barbed witticisms, his riposte is: "We don't compete with Sun, except in so far as McNealy can drive the laughmeter higher than anyone else." Mr Gates is equally dismissive about Java: "There are many computer languages. No one makes money creating languages."

But what about the risk that tiny software applications, written in Java, could be distributed free over the Internet, undercutting Microsoft's applications business? Or the fact that Mr McNealy is attempting to capitalise on enthusiasm for Java by launching a range of related products including an operating system that could drive a wedge into Microsoft's markets.

Mr Gates claims to be unimpressed: "We have always competed with free software. Just because the Internet is out there, it does not mean that people will throw away their applications," he says. Neither is the Java operating system any threat to Windows, he maintains.

Mr Gates' response to Netscape's browser is less derisive. He is, at least, prepared to acknowledge the challenge: "They are taking a browser and growing it into an operating system," he says.

Mr Gates is perhaps willing to acknowledge this challenge because he has a clear strategy for countering it. By taking the good ideas from a browser and incorporating them in a new version of Windows, Mr Gates aims to present computer users with a "single interface" – software that will enable them to find files stored on a PC's internal hard disk or on a remote Internet/intranet server.

From Microsoft's perspective, browser software is no more than Windows dressing. With a browser built into Windows, PC users will have less incentive to purchase Netscape's software, Mr Gates believes. Of Netscape's lead in the browser market, he says simply: "We will make it moot."

However, Microsoft is not relying on technology alone in the battle of the browsers – not least because Netscape gained vast amounts of free publicity following its stunning stockmarket flotation last year. "Netscape has got a lot of mind-share," says Mr Gates. "If they wanted to do a T-shirt, people would pay attention."

Microsoft's counter-attack has been vicious. Not only is it giving away its competing browser over the Internet; it has recently signed deals with America Online and CompuServe, the two largest online information service companies, to adopt the Microsoft browser in exchange for promoting their services on future versions of Windows. He is also giving away software for Internet servers to anybody who buys the Windows NT operating system for business users. Netscape, which receives most of its revenues from selling server software, has had to slash prices on its basic server programs in response.

"Our business model works even if all Internet software is free," says Mr Gates. "We are still selling operating systems. What does Netscape's business model look like [if that happens]? Not very good."

So much for Netscape. But what about the notion that network computers will usurp the role of the PC on office desktops and in the living rooms of consumers?

Although the network computer has yet to be tested in the market, it has struck a chord, particularly among those who buy computers for large companies. The attraction is not so much the cheap hardware, but the promise that network computers will be easier to maintain and support, cutting the cost of ownership of desktop computers.

In an office network environment, PCs can cost more than $10,000 a year, according to several industry studies. This includes the costs of user support, software and hardware upgrades, maintenance and other factors as well as the purchase price. If network computers take off, they could pose another threat to Microsoft because they would probably deploy software developed by Microsoft's rivals.

Mr Gates argues that, with Windows 95, there has been a "huge advance" in reducing the total cost of owning a PC because both hardware and software upgrades have been simplified. Moreover, Internet communications will enable further improvements, he says, because it will be possible to provide advice and help to PC users online.

That said, he is scathing of those who want to cut the hassle of owning computers by curbing their range of functions. "If you keep taking away things, you eventually get back to paper and pencil, which have a known cost of support. You have to teach users the language and grammar and so on. Other than that it is pretty straightforward."

Network computer supporters would prevent users adding new gadgets to their computers, Mr Gates charges. "What if you want a scanner or a video camera?" he asks, warming to his theme. "The model proposed [for network computers] is 'forget about it'.

"Do people want less computing? No, people are getting more and more ambitious in what they do with their PCs. They want a lot more computing power."

Now Mr Gates, who has often seemed on the defensive while facing Internet software competitors, is back in his more familiar role as the industry visionary. In future, he says, PCs will be used in different ways. "Take video-conferencing [on PCs]. The amount of money the world is going to save through these new communications tools is absolutely mind-blowing."

Speech recognition technology, under development at Microsoft and elsewhere, will enable people will talk to their PCs. Advances in multimedia technologies will allow PCs to display complex three-dimensional graphics on Internet pages that are individually tailored to a user's interests and needs, he predicts. All this will require more computer power and no doubt more Microsoft programs.

But what about all those people who do not have computers because they are too complex or expensive? Even in the US, fewer than 40 per cent of homes have PCs. "You are right, it is embarrassing. We are only managing to sell 70m PCs a year. That is the headline!"

In other words, the PC business going from strength the strength, and Mr Gates is seated firmly at the wheel.

OBSERVER

In Gandhi's footsteps

■ Mahatma Gandhi, famously opposed to patronage in official appointments, would probably not have approved. But through adroit footwork his grandson Gopal has been accommodated as India's new high commissioner in South Africa. And the Indian foreign service is not warmly disposed to the decision.

There is special resonance to the younger Gandhi's appointment – his grandfather spent two decades in South Africa pitting his legal wits against the race laws of Jan Smuts' government at the beginning of the century.

Nevertheless, Gopal's arrival is prompting some undiplomatic comment in Delhi's South Block; the Foreign Service has a sniffy disdain for the boys at "Home", the Indian Administrative Service where Gopal forged his career. Until the early 1990s, that is, when he took up the plum post of director of the Nehru Centre in London, a sort of cultural ambassador at large, overseeing London's finest centre for India arts and culture. The job's grace and favour character – with an apartment in fashionable Mayfair – has made the incumbent the envy of expatriate Indian society.

But with his tenancy approaching an end, Gopal is said to have sought intervention from no less than former Indian prime minister P.V. Narasimha Rao, via the London High Commission. And Rao, in what must have been one of his last acts before being eased out of office last month, apparently approved the move.

As one Indian diplomatic source said: "These boys are really rather good at this sort of thing. It was done so smoothly that we just did not have time to put up a defence."

Shadow boxing

■ The British Labour party gets ever more like the ruling Tories. Well, half of the Tories. Those making the trek to the CBI's Business in Europe conference in Birmingham on Wednesday morning can expect to hear Gordon Brown, the shadow chancellor sounding very like his Tory counterpart, Ian Lang, the industry secretary.

To the dismay of would-be monopolists, over the past year Brown has been letting drop his view that competitiveness abroad begins with competition at home. Labour, he is likely to tell the CBI, will wage war on vested interests. Very like the stance Ian Lang has used so successfully to distinguish himself from his predecessor, Michael Heseltine.

Like Lang, too, Brown may well call for more liberalisation of European markets, as he did in Bonn last month. But there is one big difference. Labour is at least willing to contemplate civil relations with continental Europe. For once, the CBI could be happier to see a Labour politician than a Tory. A turning-point of sorts.

Poor Germany

■ Tired old enemy images stick. It is perhaps no surprise that British schoolchildren associate Germany with a war which ended 40 years before they were born. More curious, according to a survey out today, is that they believed the wealthy Federal Republic to be the poorest country in Europe.

They apparently think it's even poorer than Bosnia. They also think it is the most boring country in Europe. Perhaps that may explain why they overwhelmingly voted it as the country they would least like to visit.

The survey of 800 kids was put together by Gestetner, the office equipment company, as part of a scheme to encourage businesses to donate second-hand fax machines to schools, and promote cross-border communication. They certainly appear to need it.

More than one third of the kids seem to think the US is a member of the European Union, and almost half think Australia is.

Stereotypes about Germany aside, they associate France with snails and frogs' legs, Italy with pizza and football, Spain with sunshine, and Belgium (by an overwhelming 92 per cent) with chocolate. And EuroDisney can take comfort – children associate it with France even more than traditional images of wine and onions.

The Queen and the weather are the two images children most associate with England. But not for long – next century, they fear, the Queen might "get the sack because England won't be one country any more".

BBC gold

■ When John Birt, the BBC director-general, was leaving LWT, the weekend commercial broadcaster for London, to take up his new post, he is said to have mourned the surrender of his share options. In his final conversation with LWT chairman Christopher Bland, he was supposedly told: "You can have money or glory, but you can't have both." Small consolation: Birt saw his former colleague become a multi-millionaire on the back of LWT shares – and then also become chairman of the BBC.

But could Bland, once again Birt's boss, now be more forthcoming? Pressed on Friday to reveal what one hack called Birt's "renumeration", Sir Christopher said that while the length of Birt's contract had been extended, they hadn't talked money.

Bland might now feel that renumeration of Birt's package was in order.

The Financial Times 50 years ago

The Cycle Craze

The speed of the cycle craze is a theme on which many of the American manufacturers' journals are just now descanting at length. The importance of the industry is such that there are already 250 factories at work with an aggregate capital of $60,000,000 or more. The South is taking the matter up, and as scarcely a bicycle has yet been made in that portion of the States, the big factory now being started in Atlanta is of some interest. It is worth noting, too, that the important Hagerstown factory, where some 1,700 men work, is preparing to open a branch in Europe.

The Motor Industry

A number of journalists and gentlemen interested in the development of the new motor industry took part yesterday in a visit to Coventry on the invitation of Mr. Harry J. Lawson. On arriving at their destination, the party proceeded to the buildings secured by the Daimler Motor Company. Engines of 750 horsepower are already constructed, and Mr. Simms, engineer to the company, said that the preparations would probably be sufficiently advanced for the commencement of operations in about a fortnight's time.

FINANCIAL TIMES
Monday June 10 1996

'Risk premium' to borrowers evaporating

Demand is driving down east European loan costs

By Conner Middelmann in London

The "risk premium" to eastern European borrowers is evaporating rapidly only six years after the fall of the Berlin wall, when the cost of credit to the region stood at giddy heights.

This is because of increasing investor demand for high-yielding financial assets and competition among international banks to lend and underwrite bond issues to the region. These factors are pushing funding costs for eastern European borrowers sharply lower in the international capital markets.

Poland is set to become one of the next beneficiaries of this trend when it taps the international bond market in the coming weeks. While the terms of its forthcoming D-Mark bonds have not been set, the paper is expected to yield just over half a percentage point above German government bonds.

In current market conditions that would be equivalent to an interest rate of around 5.75 per cent. This yield differential is remarkably narrow given that the risk on German government bonds is minimal.

While some market observers warn that the returns on some eastern European debt no longer adequately reflect the credit risks it represents, they concede that the lack of supply of bonds from this region will keep investor demand and prices underpinned.

"This rally has been in large part driven by the scarcity of paper," said Mr Jonathan Brown, emerging markets syndicate manager at Deutsche Morgan Grenfell.

"Once investors have credit approval in place for these kinds of borrowers, there's demand for more – it's outstripping supply at the moment."

Another factor whetting investors' appetite for emerging-market debt securities is the higher interest rates they offer over most "developed" countries' markets.

"Short-term interest rates in the US, Japan and most of Europe are so low that people get next to nothing for putting their money on deposit," said Mr Patrick O'Brien, director for debt capital markets at investment bank SBC Warburg. "As a result, there's a huge pool of cash looking for higher yield and getting into these markets."

Investors have also been attracted by political stability and economic growth in the region, which is allowing borrowers to make payments on existing debts more promptly.

This has led international credit rating agencies to upgrade a number of formerly risky debtors to "investment-grade" in recent months. Such a classification allows mainstream investors – such as pension funds and insurance companies, rather than just emerging-market specialists – to buy their debt.

Earlier this year, Moody's and Standard & Poor's awarded Poland an investment-grade rating, and last week, IBCA, the European rating agency, upgraded Poland by two notches to triple-B – the country's highest rating so far.

Thai punters at odds with the law over bets on Euro 96

By Ted Bardacke in Bangkok

With Thailand's stock market in the doldrums, action-starved punters are betting feverishly on Euro 96, the European football championship which England is hosting.

Even people with little knowledge of football are jumping into the fray, betting on strange combinations such as the number of goals scored in particular matches, according to illegal Thai bookmakers.

Thai police say they expect Bt1bn ($40m) to change hands during the tournament, which started in London at the weekend and lasts until June 30.

A local bookmaker said low-level bets of between $20 and $200 were the most common, but big-time gamblers betting directly with big-time bookies – such as his boss – were wagering far higher sums.

For Thai punters, Germany and Italy are favourites to win the tournament. England are also well supported. Thai bookmakers routinely take note of the betting odds available in Europe – and then reduce them for popular international teams with recognisable stars.

Although it is illegal, gambling on football has made many Thais crazy about the sport. "I only started to watch football during the [1994] World Cup because my sons were betting on it," said Mr Paisal Sriwatawokorn, a Bangkok baker. "Now I bet and watch too. It's a fun break from the normal things like Thai boxing, cock fighting and fish fighting."

"Brother" Chai, a bookmaker operating out of a gold shop in Bangkok's Chinatown, explained that Thai people do not normally bet on domestic football matches but prefer European football "because they think it's harder to fix the games or bribe the players" in Europe.

"People like to gamble but they don't want it rigged," Chai said over one of the three mobile phones he keeps on his long glass showcase, brimming with heavy gold bracelets and necklaces.

In Thailand, gambling is a significant national activity. Underground lotteries, based on the official lottery numbers but with cheaper tickets and higher payouts, flourish. Any gathering can become an excuse for a high-stakes card game, especially rural funerals.

Police recently broke up a syndicate operating in Thailand's impoverished north-eastern region that ran a daily lottery based on the last two numbers of the closing index of the stock exchange in Bangkok. A suspect held at the main police station in Ubon Ratchathani continued to field betting requests on his mobile phone as he was paraded before television cameras.

During elections, some rural Thai politicians are said to organise betting pools on the outcome, offering artificially attractive odds on themselves in an effort to boost their haul of votes.

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Dow Chemical plans $1bn plastics venture

Continued from Page 1

industry's leading technologies, Spheripol. The joint venture, formed last April, is in such a strong position that Union Carbide is appealing against its approval by the European Commission and suing for compensation and "a restoration of competition" in courts in New York and Milan.

Dow won the US Inventor of the Year award in 1994 for its Insite technology, which has generated entirely new forms of polyethylene. Dow now plans to licence Montell's Spheripol technology for all its new plants, and both companies will work on combining the Insite and Spheripol technologies.

Mr William Stavropoulos, Dow's president, said the deal should turn Dow into one of the top polypropylene suppliers in the world. "Within 10 years we plan to have 3bn lbs [1.36m tonnes] of capacity, generating sales of $1bn a year."

Sinn Féin quiet over ceasefire on eve of Ulster talks

By John Kampfner, Chief Political Correspondent, in Belfast

Sinn Féin yesterday pursued its policy of brinkmanship to the last as the British and Irish governments made final preparations for today's all-party talks on the future of Northern Ireland with no sign of the Irish Republican Army ceasefire upon which so much depends.

With the eyes of the world on the province, Mr John Major and Mr John Bruton, the prime ministers of the UK and Ireland respectively, will formally open the talks this afternoon. The talks are the culmination of years of painstaking effort, often through covert contacts, to get the parties at the heart of decades of conflict to sit around the same table.

After insisting for months on an initial handover of terrorist weapons as a condition for Sinn Féin's participation at the talks, the UK government has settled instead on a restoration of the 17-month ceasefire that ended last February when an IRA bomb exploded in London's Docklands, killing two people.

The leaders of Sinn Féin, the IRA's political wing, have pledged to arrive at the gates of the talks and demand entry with or without a ceasefire announcement. Ministers appear reconciled to the propaganda points such an incident would give the republican movement.

Mr Dick Spring, the Irish deputy prime minister, said Sinn Féin would be allowed into the talks even if a ceasefire announcement were made only seconds before the start. But the British side spoke of the need for verification of any declaration.

Nine parties have been invited to the talks, including the Ulster Unionists, Democratic Unionists, the moderate nationalist SDLP and two groups representing Protestant paramilitaries.

Mr George Mitchell, the former US senator whose appointment as chairman of the talks has infuriated Unionists, met British and Irish ministers yesterday after arriving in Belfast. He also met Mr David Trimble, the Ulster Unionist leader, in a move to persuade him of his impartiality. Mr Trimble had earlier agreed broad strategy outlines with the leaders of the two rival Unionist parties, the Rev Ian Paisley of the DUP and Mr Robert McCartney of the UK Unionists.

Unionists have warned that they might not agree to the agenda for the talks put forward by London and Dublin. Both governments have said progress can be made only through consensus.

As head of a three-strong international group, Mr Mitchell has devised a set of six principles of non-violence to which each of the parties must demonstrate commitment during the first session.

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THE LEX COLUMN

Internet battles

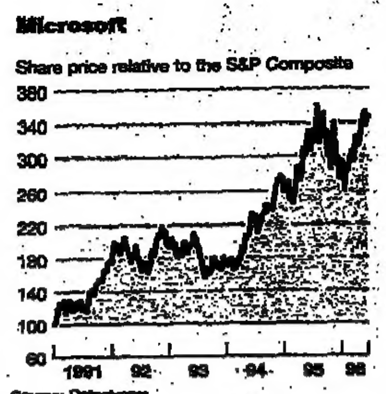
Chief executives often try to talk up their own share prices, but are usually more circumspect about knocking their rivals. In the war between Microsoft and its Internet competitors, however, share prices are increasingly being used as a weapon. Sun Microsystems' Mr Scott McNealy and Oracle's Mr Larry Ellison rarely miss an opportunity to argue that Microsoft's stock is overvalued. Microsoft's Mr Bill Gates cannot resist likening the enthusiasm for Internet stocks to a gold rush.

Envy is, of course, one explanation for the focus on share prices: Mr Gates' $15bn personal wealth, mostly based on his Microsoft stock, makes him king of the computer castle. But there is logic in questioning rivals' share prices too, because their level can influence the battle on the ground. Netscape's stunning stock market debut last year generated vast amounts of free publicity. Netscape's soaring share price has also given it the financial firepower to acquire other companies.

Microsoft itself is so financially strong that the level of its share price would probably not affect its investment plans. But a languishing share price might tempt its top programmers to bail out and join the gold rush. Moreover, if Wall Street retains its enthusiasm for Internet stocks, more capital will be ploughed into potential rivals, neutralising one of Microsoft's advantages – deep pockets.

If stock prices are one of the weapons being deployed in the Internet war, marketing hype is another. Here, the best example is Java, Sun's new programming language. A brilliantly orchestrated campaign to win the hearts and minds of software developers has generated a sort of self-fulfilling Java fever: the more developers use Java, the more attractive it will be as a language. Sun, which gives away Java the language, is now trying to stretch the brand over a slew of derivatives which it will charge for. It is this family of products that constitutes the biggest threat to Microsoft's core operating system and applications businesses.

Mr Gates has weapons of his own for a counter-attack. The most important are his Windows operating systems. Not only does Windows already dominate the desktop computer market; Windows NT is rapidly penetrating the market for "servers", largish computers that sit at the heart of networks. This poses a threat to Sun's core server business. Strength in operating systems also gives Microsoft a way of combating the threat from Netscape. It is integrating Internet software into Windows versions and giving it away. Netscape may find it hard to compete with such tactics.



Source: Datastream

But even if Mr Gates wins the battle of the browsers, defeating Sun's Java system will be more tricky. Though Microsoft has licensed Java, it is hard to see how it can wrest control over the standard-setting process from Sun. In the short run, this might not matter. Indeed, the whole Internet phenomenon is spurring renewed interest in computing and so could boost demand for Microsoft's products. But, in the longer run, losing control of the game would presage an erosion of market share and margins.

Japan

Japan's financial markets have got themselves in a tizzy over nothing. Stocks and bonds fell sharply on Friday on fears that growing confidence at Japanese businesses – reported in the Bank of Japan's quarterly Tankan survey – would prompt a rapid rise in Japanese interest rates that could choke the recovery. In reality, a rate increase at this point is unlikely.

A close look at the Tankan survey shows Japan's recovery is still very lopsided. While recent profits growth, both among manufacturers and service companies, has been in excess of 35 per cent, the same businesses are also reporting rising costs, falling prices and growing stockpiles. And while the increase in investment intentions looks positive, much of that money will be used to build factories outside Japan. Honda will build more cars abroad than at home this year, for the first time in its history.

Second, the Bank of Japan is not yet convinced that the country's economic upswing is self-sustaining. So far, the recovery has been largely based on repeated injections of money by the government. But the impact of last September's record Y14,220bn ($135.4bn) public spending package will have been soaked up by this autumn. With the fiscal stimulus declining, the Bank will be keen to stick to its easy monetary policy. Low interest rates also remain the key to sorting out the country's financial system, since they allow banks to make easy profits against which they can set their huge bad debt write-offs.

If rates do remain low, that will be bullish for Japanese equities, which have drifted lately after gaining over 50 per cent since last July. The short-term outlook for the bond market is also good. But in the long run it may find itself drowning in a flood of new paper as the government finances its efforts to kick-start the recovery.

Sears

Mr Liam Strong, Sears' chief executive, is like the little Dutch boy with his finger in the dike valiantly trying to keep back the flood. But he has run out of fingers. The latest leak – the mounting provisions against the group's sale of two shoe businesses to the collapsed Facia – will have to be the last; one more disaster and he will deservedly be swallowed by the tide.

Mr Strong's defence of the Facia deals appears reasonable: namely, that if Facia had survived, Sears would have been £31m better off, whereas the financial impact of Facia's collapse has been the same as if Sears had closed the businesses itself. But it is puzzling that Mr Strong did not reveal these closure costs at the time of the Facia transactions. Indeed, Sears has been parsimonious with information concerning these deals. This does little to bolster shareholder confidence which has been battered by Sears' failure to respond to four years of Mr Strong's corporate medicine.

Mr Strong's last line of defence is that after a terrible start to 1996, profits will rebound strongly in the second half. Investors should hold him to his word. He has taken a sensible approach in rationalising an ugly collection of retail brands, but has yet to make his chosen strategy work. Burton, when faced with a similar dilemma, stuck with its distressed portfolio and did an excellent job of reviving it. Sears took the seemingly easier route of casting off unwanted brands, but this may have been a distraction from getting down to the real job of improving operational efficiency.

Nonetheless, Sears shares look undervalued on current earnings forecasts – and also break-up valuations. After all, if Mr Strong does not deliver soon, someone else will.

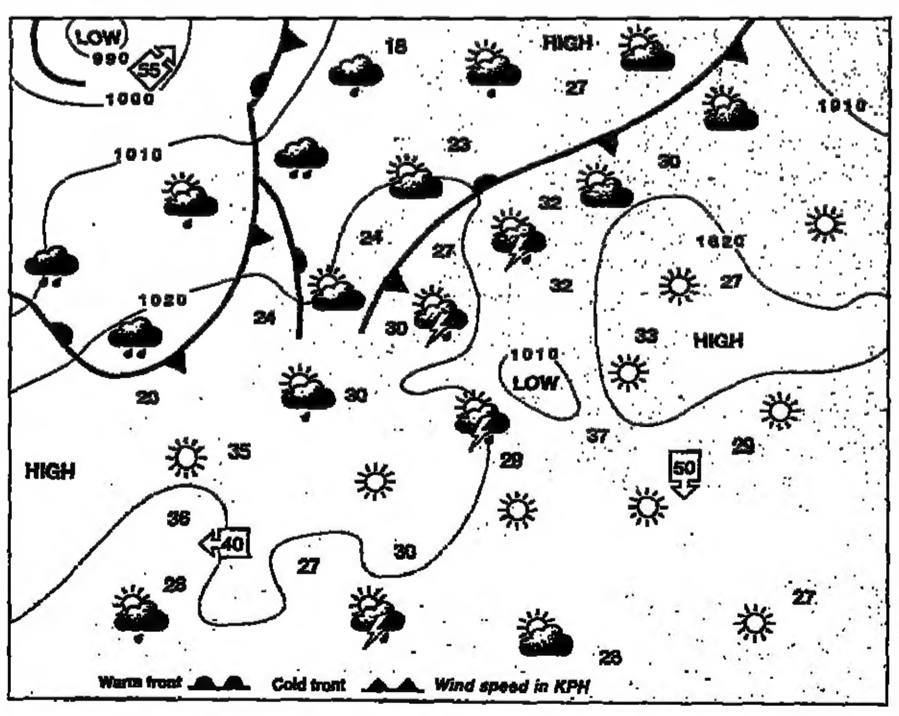
FT WEATHER GUIDE

Europe today

Conditions will remain warm and sunny over a large part of Europe. The highest afternoon temperatures in eastern Europe will occur in southern regions of the Balkans and in Greece. Thunder showers will develop along a line from southern Germany across northern Poland towards Russia. Spain and Portugal will be sunny, with temperatures above 35C in Andalucia. Italy and France may have thunder showers at the end of the day. Most of the UK will have rain, but the south-east will be sunny at first. Temperatures will rise above 20C in southern Scandinavia, where there will be occasional showers.

Five-day forecast

The British Isles will be sunny tomorrow, but rain will reach Ireland later on, spreading over the UK on Tuesday. High pressure over the UK, France and the Benelux during Wednesday will bring cooler conditions. The Baltic states and Scandinavia will become much cooler during the first half of the week. South-eastern Europe will start the week hot and sunny, with cooler temperatures and thunder showers developing later.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius		Beijing	cloudy	30	Caracas	fair	31	Faro	sun	27	Madrid	sun	35	Rangoon	fair	33
			Belfast	rain	16	Cardiff	rain	17	Frankfurt	fair	29	Majorca	sun	29	Reykjavik	rain	12
Abu Dhabi	sun	41	Belgrade	sun	33	Casablanca	fair	24	Geneva	fair	29	Malta	sun	27	Rio	fair	23
Accra	thund	30	Berlin	thund	27	Chicago	rain	20	Gibraltar	sun	25	Manchester	rain	19	Rome	sun	29
Algiers	fair	28	Bermuda	fair	25	Cologne	fair	28	Glasgow	rain	16	Manila	rain	33	S. Frsco	fair	20
Amsterdam	fair	24	Bogota	fair	18	Dakar	fair	28	Hamburg	fair	26	Melbourne	shower	14	Seoul	shower	27
Athens	sun	31	Bombay	fair	34	Dallas	fair	32	Helsinki	fair	26	Mexico City	shower	22	Singapore	shower	31
Atlanta	thund	27	Brussels	fair	27	Delhi	fair	39	Hong Kong	rain	30	Miami	thund	31	Stockholm	shower	23
B. Aires	sun	23	Budapest	sun	33	Dubai	sun	40	Honolulu	fair	31	Milan	sun	30	Strasbourg	fair	29
B.ham	rain	20	C.hagen	fair	22	Dublin	rain	16	Istanbul	sun	29	Montreal	thund	26	Sydney	cloudy	15
Bangkok	fair	34	Cairo	sun	35	Dubrovnik	fair	31	Jakarta	shower	30	Moscow	fair	26	Tangier	sun	27
Barcelona	sun	25	Cape Town	fair	18	Edinburgh	rain	17	Jersey	fair	18	Munich	thund	27	Tel Aviv	sun	32
									Karachi	fair	36	Nairobi	thund	23	Tokyo	cloudy	24
									Kuwait	sun	42	Naples	sun	29	Toronto	thund	26
									L. Angeles	fair	24	Nassau	fair	31	Vancouver	cloudy	18
									Las Palmas	fair	25	New York	fair	27	Venice	sun	29
									Lima	cloudy	18	Nice	sun	27	Vienna	fair	31
									Lisbon	sun	27	Nicosia	sun	33	Warsaw	fair	32
									London	fair	24	Oslo	sun	24	Washington	thund	27
									Lux.bourg	fair	27	Paris	fair	28	Wellington	fair	11
									Lyon	fair	30	Perth	fair	21	Winnipeg	fair	29
									Madeira	fair	22	Prague	thund	27	Zurich	shower	26